TARIFF RATE INVERSION ON CERTAIN IRON AND STEEL PIPE AND TUBE PRODUCTS

HEARING

BEFORE THE

SUBCOMMITTEE ON TRADE

OF THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

ONE HUNDREDTH CONGRESS

SECOND SESSION

ON

H.R. 1336

TO CORRECT THE TARIFF RATE INVERSION ON CERTAIN IRON AND STEEL PIPE AND TUBE PRODUCTS

AND

H.R. 2419

TO CORRECT THE TARIFF RATE INVERSION ON ALLOY IRON AND STEEL PIPES AND TUBES

SEPTEMBER 22, 1988

Serial 100-85

Printed for the use of the Committee on Ways and Means

U.S. GOVERNMENT PRINTING OFFICE

91-315 WASHINGTON : 1989

For sale by the Superintendent of Documents, Congressional Sales Office
U.S. Government Printing Office, Washington, DC 20402

H781-37

COMMITTEE ON WAYS AND MEANS

DAN ROSTENKOWSKI, Illinois, *Chairman*

SAM M. GIBBONS, Florida
J.J. PICKLE, Texas
CHARLES B. RANGEL, New York
FORTNEY PETE STARK, California
ANDY JACOBS, JR., Indiana
HAROLD FORD, Tennessee
ED JENKINS, Georgia
RICHARD A. GEPHARDT, Missouri
THOMAS J. DOWNEY, New York
FRANK J. GUARINI, New Jersey
MARTY RUSSO, Illinois
DON J. PEASE, Ohio
ROBERT T. MATSUI, California
BERYL ANTHONY, JR., Arkansas
RONNIE G. FLIPPO. Alabama
BYRON L. DORGAN, North Dakota
BARBARA B. KENNELLY, Connecticut
BRIAN J. DONNELLY, Massachusetts
WILLIAM J. COYNE, Pennsylvania
MICHAEL A. ANDREWS, Texas
SANDER M. LEVIN, Michigan
JIM MOODY, Wisconsin

BILL ARCHER, Texas
GUY VANDER JAGT, Michigan
PHILIP M. CRANE, Illinois
BILL FRENZEL, Minnesota
DICK SCHULZE, Pennsylvania
BILL GRADISON, Ohio
WILLIAM M. THOMAS, California
RAYMOND J. McGRATH, New York
HAL DAUB, Nebraska
JUDD GREGG, New Hampshire
HANK BROWN, Colorado
ROD CHANDLER, Washington
E. CLAY SHAW, JR., Florida

ROBERT J. LEONARD, *Chief Counsel*
M. KENNETH BOWLER, *Staff Director*
A.L. SINGLETON, *Minority Chief of Staff*

SUBCOMMITTEE ON TRADE

SAM M. GIBBONS, Florida, *Chairman*

DAN ROSTENKOWSKI, Illinois
ED JENKINS, Georgia
THOMAS J. DOWNEY, New York
DON J. PEASE, Ohio
MARTY RUSSO, Illinois
RICHARD A. GEPHARDT, Missouri
FRANK J. GUARINI, New Jersey
ROBERT T. MATSUI, California

PHILIP M. CRANE, Illinois
GUY VANDER JAGT, Michigan
BILL FRENZEL, Minnesota
DICK SCHULZE, Pennsylvania
WILLIAM M. THOMAS, California

CONTENTS

	Page
Press releases of Wednesday, September 7 and 8, 1988, announcing the hearing	2
H.R. 1336, text	5
H.R. 2419, text	8

WITNESSES

Office of the U.S. Trade Representative, Judith Hippler Bello, General Counsel	10
Berg Steel Pipe Corp., Carl G. Seigler and Lewis Leibowitz	43
Committee on Pipe & Tube Imports, James Feeney and Roger B. Schagrin	24
Sharon Steel, Inc., Damascus Tubular Products Division, George F. Werner	34
Specialty Tubing Group, George F. Werner and Patrick Fazzone	34
United Steelworkers of America, AFL–CIO, Kenneth S. Kovack	31
Wheatland Tube Co., James Feeney	24

SUBMISSIONS FOR THE RECORD

Delegation of the Commission of the European Communities, Roy Denman, letter	51
Hoesch America, Inc. and Hoesch Tubular Products Company, Lewis E. Leibowitz, letter and attachments	52
National Association of Foreign-Trade Zones, Dennis J. Curran, letter	53

TARIFF RATE INVERSION ON CERTAIN IRON AND STEEL PIPE AND TUBE PRODUCTS

THURSDAY, SEPTEMBER 22, 1988

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON TRADE,
Washington, DC.

The subcommittee met, pursuant to call, at 2:10 p.m., in room 1100, Longworth House Office Building, Hon. Sam M. Gibbons (chairman of the subcommittee) presiding.

[The press releases announcing the hearing and a copy of the bills, H.R. 1336 and H.R. 2419, follow:]

FOR IMMEDIATE RELEASE
WEDNESDAY, SEPTEMBER 7, 1988

SUBCOMMITTEE ON TRADE #23
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES
1102 LONGWORTH HOUSE OFFICE BLDG.
WASHINGTON, D.C. 20515
TELEPHONE: (202) 225-1721

THE HONORABLE SAM M. GIBBONS (D., FLA.), CHAIRMAN, SUBCOMMITTEE ON TRADE, COMMITTEE ON WAYS AND MEANS, U.S. HOUSE OF REPRESENTATIVES, ANNOUNCES A PUBLIC HEARING ON H.R. 1336 AND H.R. 2419, BILLS TO CORRECT THE TARIFF RATE INVERSION ON CERTAIN IRON AND STEEL PIPE AND TUBE PRODUCTS

The Honorable Sam M. Gibbons (D., Fla.), Chairman of the Subcommittee on Trade, Committee on Ways and Means, U.S. House of Representatives, today announced that the Subcommittee will hold a public hearing on H.R. 1336 and H.R. 2419, bills to correct the tariff rate inversion on certain iron and steel pipe and tube products. The hearing will be held on Tuesday, September 20, 1988, in room B-318 Rayburn House Office Building, beginning at 2:00 p.m.

H.R. 1336 would increase the column 1 and column 2 duties on imports of welded iron and steel pipe and steel conduits, to levels equivalent to the existing tariff rates for intermediate products used to produce pipe and tube. H.R. 2419 would increase the column 1 and column 2 duties on imports of welded alloy and stainless steel pipes and tubes, to levels equivalent to the existing tariff rates for intermediate alloy and stainless steel sheet products used to produce pipe and tube.

DETAILS FOR SUBMISSION OF REQUESTS TO BE HEARD:

Requests to be heard must be made by telephone to Harriett Lawler or Diane Kirkland [telephone (202) 225-1721] by the close of business, Tuesday, September 13, 1988. The telephone request should be followed by a formal written request to Robert J. Leonard, Chief Counsel, Committee on Ways and Means, U.S. House of Representatives, room 1102 Longworth House Office Building, Washington, D.C. 20515. The Subcommittee staff will notify by telephone those scheduled to appear as soon as possible after the filing deadline. Any questions concerning a scheduled appearance should be directed to the Subcommittee office [(202) 225-3943].

In view of the limited time available to hear witnesses, the Subcommittee may not be able to accommodate all requests to be heard. Those persons and organizations not scheduled for an oral appearance are encouraged to submit written statements for the record of the hearing. All persons requesting to be heard, whether they are scheduled for oral testimony are not, will be notified as soon as possible after the filing deadline.

(MORE)

Witnesses scheduled to present oral testimony are requested to briefly summarize their written statements. The full statement will be included in the printed record.

In order to assure the most productive use of the limited amount of time available to question hearing witnesses, witnesses scheduled to appear before the Subcommittee are required to submit 200 copies of their prepared statements to the Subcommittee on Trade office, room 1136 Longworth House Office Building, at least 24 hours in advance of their scheduled appearances. Failure to do so may result in the witness being denied the opportunity to testify in person.

WRITTEN STATEMENTS IN LIEU OF PERSONAL APPEARANCE:

Persons submitting a written statement in lieu of a personal appearance should submit six (6) copies of their statements by the close of business, Friday, September 23, 1988, to Robert J. Leonard, Chief Counsel, Committee on Ways and Means, U.S. House of Representatives, Room 1102 Longworth House Office Building, Washington, D.C. 20515. If those filing a written statement for the record of the printed hearing wish to have their statements distributed to the press and the interested public at the hearing, they may provide 75 additional copies for this purpose to the Subcommittee office, room 1136 Longworth House Office Building, prior to the start of the public hearing.

SEE FORMATTING REQUIREMENTS BELOW:

COMMITTEE ON WAYS AND MEANS FORMATTING REQUIREMENTS FOR PRINTING OF HEARING STATEMENTS, WRITTEN COMMENTS AND EXHIBITS

Each statement presented for printing to the Committee by a witness, any written statement or exhibit submitted for the printed record or any written comments in response to a request for written comments must conform to the guidelines listed below. Any statement or exhibit not in compliance with these guidelines will **not** be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All statements and any accompanying exhibits for printing must be typed in single space on legal-size paper and may not exceed a total of 10 pages.
2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.
3. Statements must contain the name and capacity in which the witness will appear or, for written comments, the name and capacity of the person submitting the statement, as well as any clients or persons, or any organization for whom the witness appears or for whom the statement is submitted.
4. A supplemental sheet must accompany each statement listing the name, full address, a telephone number where the witness or the designated representative may be reached and a topical outline or summary of the comments and recommendations in the full statement. This supplemental sheet will not be included in the printed record.

The above restrictions and limitations apply only to material being submitted for printing. Statements and exhibits or supplementary material submitted solely for distribution to the Members, the press and public during the course of a public hearing, may be submitted in other forms.

* * * * * * * * * * *

***** NOTICE -- CHANGE IN DATE AND LOCATION *****

FOR IMMEDIATE RELEASE
THURSDAY, SEPTEMBER 8, 1988

PRESS RELEASE #23-REVISED
SUBCOMMITTEE ON TRADE
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES
1102 LONGWORTH HOUSE OFFICE BLDG.
WASHINGTON, D.C. 20515
TELEPHONE: (202) 225-1721

THE HONORABLE SAM M. GIBBONS (D., FLA.), CHAIRMAN, SUBCOMMITTEE ON TRADE, COMMITTEE ON WAYS AND MEANS, U.S. HOUSE OF REPRESENTATIVES, ANNOUNCES A CHANGE IN THE DATE AND LOCATION OF THE PUBLIC HEARING ON H.R. 1336 AND H.R. 2419, BILLS TO CORRECT THE TARIFF RATE INVERSION ON CERTAIN IRON AND STEEL PIPE AND TUBE PRODUCTS

The Honorable Sam M. Gibbons (D., Fla.), Chairman of the Subcommittee on Trade, Committee on Ways and Means, U.S. House of Representatives, today announced that the Subcommittee hearing on H.R. 1336 and H.R. 2419, bills to correct the tariff rate inversion on certain iron and steel pipe and tube products, has been rescheduled for **Thursday, September 22, 1988**. The hearing will be held in the **main Committee hearing room, 1100 Longworth House Office Building**, beginning at 2:00 p.m.

All other details for the hearing remain the same. (See press release #23, dated September 7, 1988.)

* * * * * * * * * * *

I

100TH CONGRESS
1ST SESSION

H. R. 1336

To correct the tariff rate inversion on certain iron and steel pipe and tube products.

IN THE HOUSE OF REPRESENTATIVES

MARCH 2, 1987

Mr. RUSSO introduced the following bill; which was referred to the Committee on Ways and Means

---

A BILL

To correct the tariff rate inversion on certain iron and steel pipe and tube products.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. NONALLOYED IRON AND STEEL PIPES AND TUBES.

Subpart B of part 2 of schedule 6 of the Tariff Schedules of the United States (19 U.S.C. 1202) is amended as follows:

(1) The superior heading to items 610.30, 610.31, and 610.32 is amended to read as follows: "Other than alloy iron or steel and not galvanized:".

(2) Item 610.31 is amended—

(A) by striking out "2.7%" in column 1 and inserting in lieu thereof "4.9%"; and

(B) by striking out "6.5%" in column 2 and inserting in lieu thereof "20%".

(3) Item 610.32 is amended—

(A) by striking out "1.9%" in column 1 and inserting in lieu thereof "4.9%"; and

(B) by striking out "5.5%" in column 2 and inserting in lieu thereof "20%".

(4) The following new item is inserted after item 610.32 at the same indentation level as the superior heading to items 610.30, 610.31, and 610.32:

"	610.33	Other than alloy iron or steel, and galvanized	6.5% ad val.	Free (E, I)	21.5% ad val.	".

(5) Item 610.39 is amended—

(A) by striking out "0.5%" in column 1 and inserting in lieu thereof "4.9%"; and

(B) by striking out "1%" in column 2 and inserting in lieu thereof "20%".

SEC. 2. FINISHED STEEL CONDUITS.

Item 688.30 is amended—

(1) by striking out "6.3%" in column 1 and inserting in lieu thereof "6.5%"; and

(2) by striking out "5.8%" in the Special column and inserting in lieu thereof "6.5%".

SEC. 3. EFFECTIVE DATE.

The amendments made by sections 1 and 2 apply with respect to articles entered, or withdrawn from warehouse for consumption, on or after the 15th day after the date of the enactment of this Act.

○

I

100TH CONGRESS
1ST SESSION

H. R. 2419

To correct the tariff rate inversion on alloy iron and steel pipes and tubes.

IN THE HOUSE OF REPRESENTATIVES

MAY 13, 1987

Mr. RUSSO introduced the following bill; which was referred to the Committee on Ways and Means

---

A BILL

To correct the tariff rate inversion on alloy iron and steel pipes and tubes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. ALLOY IRON AND STEEL PIPES AND TUBES.

Subpart B of part 2 of schedule 6 of the Tariff Schedules of the United States (19 U.S.C. 1202) is amended as follows:

(1) Item 610.35 is amended—

(A) by striking out "3.7%" in column 1 and inserting in lieu thereof "9.5%"; and

(B) by striking out "10%" in column 2 and inserting in lieu thereof "28%".

(2) Item 610.36 is amended—

(A) by striking out "3.5%" in column 1 and inserting in lieu thereof "9.5%"; and

(B) by striking out "9.5%" in column 2 and inserting in lieu thereof "28%"; and

(3) Item 610.37 is amended—

(A) by striking out "4.9%" in column 1 and inserting in lieu thereof "9.5%"; and

(B) by striking out "10%" in column 2 and inserting in lieu thereof "28%".

SEC. 2. EFFECTIVE DATE.

The amendments made by section 1 apply with respect to articles entered, or withdrawn from warehouse for consumption, on or after the 15th day after the date of the enactment of this Act.

○

Chairman GIBBONS. Good afternoon.

This is a meeting of the Ways and Means Trade Subcommittee. The subject matter of this meeting, of course, is the inverted tariff that we find on steel tube products. We are holding this hearing in order to find out what can be done and should be done, and how we got in the position that we are in.

We are holding it particularly at the request of our distinguished colleague from Illinois. So let's go right into it. Mr. Russo, since we are holding this particularly at your request, and I am happy to hold it at your request, I would be happy to hear from you first.

Mr. RUSSO. Mr. Chairman, I want to take this opportunity to thank you for holding these hearings. As you know, I have been interested in the tariff inversion issue for some time now. That is why I introduced H.R. 1336 and 2419. We know a serious inequity exists and needs to be corrected.

I hope these hearings go a long way in shedding light on how we can properly address the tariff inversion issue. I am sure the witnesses will enlighten us on what needs to be done.

So, I look forward to their testimony. I will be more than happy to work with you, Mr. Chairman, in doing something legislatively, if not this year, then next, if we are not successful in the Uruguay Round.

Thank you, Mr. Chairman.

Chairman GIBBONS. I pay tribute to you for your skill and persistence in bringing this matter to our attention.

Mr. SCHULZE. Mr. Chairman, may I say I agree with the gentleman from Illinois. I believe what we have to look at is a matter of equity, whether we are creating a distortion which changes the marketplace or changes the supply system inadvertently.

If we are deliberately doing what we want to, encouraging one type of export over another, that is one thing. But if we are creating a distortion, then we should see if there is a way that can be rationally and reasonably taken care of.

I think we have to do what is right. We should do as little as possible to distort those market forces which are prevalent in international trade.

Chairman GIBBONS. Thank you.

Our first witness is Ms. Judith Bello, General Counsel of the United States Trade Representative's Office. Ms. Bello is well known to all of us.

STATEMENT OF JUDITH HIPPLER BELLO, GENERAL COUNSEL, OFFICE OF THE U.S. TRADE REPRESENTATIVE

Ms. BELLO. Thank you, Mr. Chairman.

We have submitted a statement, which I would respectfully request be included in the record.

Chairman GIBBONS. Without objection.

Ms. BELLO. I think our views are fairly well known to the subcommittee. While we have the greatest good will and respect for Congressman Russo, as you know we strongly oppose the bill.

The reason is quite simple. The bill proposes to raise tariffs beyond the GATT rates. This would require that we offer compensatory trade benefits to our trading partners. And it would hamper

our credibility in the pending Uruguay round midterm review to be held in December in Montreal.

It is for these reasons we oppose the bill. That is the bad news. The good news is that Ambassador Alan F. Holmer, Deputy U.S. Trade Representative, has assured Congressman Russo that we will have no higher priority in our tariff negotiations in this round than correcting this particular tariff inversion.

We think there is a better way to address this problem, and we are hopeful that the subcommittee will agree with us, and that this bill will not be passed.

Thank you.

[The statement of Ms. Bello follows:]

TESTIMONY OF JUDITH H. BELLO
GENERAL COUNSEL
OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE

MR. CHAIRMAN, MEMBERS OF THE COMMITTEE:

THANK YOU FOR THE OPPORTUNITY TO PROVIDE OUR VIEWS REGARDING TWO TARIFF BILLS, H.R. 1336 AND 2419. THESE BILLS ARE DESIGNED TO RAISE U.S. DUTIES ON CERTAIN ALLOYED AND NON-ALLOYED IRON AND STEEL PIPE AND TUBE PRODUCTS TO A LEVEL EQUIVALENT TO THE DUTIES APPLIED ON MATERIALS USED IN THEIR MANUFACTURE. THE BILLS ARE ESSENTIALLY DESIGNED TO ELIMINATE WHAT IS KNOWN AS A "TARIFF INVERSION." THE NET EFFECT OF THE INVERSION BETWEEN STEEL PIPE AND TUBE AND THE PRODUCTS FROM WHICH THEY ARE PRODUCED IS TO ENCOURAGE IMPORTS INTO THE UNITED STATES OF MORE FINISHED PRODUCTS, WHICH HAVE THE LOWER DUTIES.

IN THE CASE OF H.R. 1336, THE PRODUCTS COVERED BY THESE PROVISIONS INCLUDE NON-ALLOYED WELDED OR SEAMLESS IRON AND STEEL PIPE AND TUBE COVERED BY TARIFF SCHEDULE OF THE UNITED STATES (TSUS) ITEMS 610.31, 610.32 AND 610.33, 610.39 AND 688.30. H.R. 2419 ADDRESSES SIMILAR ALLOYED IRON AND STEEL PIPES AND TUBES WHICH ARE CLASSIFIED IN TSUS ITEMS 610.35, 610.36 AND 610.37. ALL PRODUCTS COVERED BY THESE BILLS ARE SUBJECT TO U.S. QUANTITATIVE RESTRICTIONS.

THE TARIFF INVERSION ON PIPE AND TUBE PRODUCTS OCCURRED OVER THE COURSE OF THREE ROUNDS OF MULTILATERAL TARIFF NEGOTIATIONS, DATING FROM 1960. IN 1960, THE UNITED STATES AGREED TO MODIFY THE TARIFF ON FLAT ROLLED PRODUCTS, INCLUDING SHEET, PLATE AND STRIP, FROM SPECIFIC, CENTS-PER-POUND DUTIES TO DUTIES BASED ON VALUE, AD VALOREM DUTIES. DURING THE MOST RECENT ROUND OF MULTILATERAL TARIFF NEGOTIATIONS IN THE LATE 1970'S, THE UNITED STATES MADE ANOTHER COMMITMENT TO CONVERT THE TARIFF ON PIPE AND TUBE (THE MORE FINISHED PRODUCTS) FROM A SPECIFIC DUTY TO AN AD VALOREM DUTY TO PARALLEL THE DUTY STRUCTURE IN THE FLAT ROLLED STEEL PRODUCTS. UNFORTUNATELY, FOLLOWING SEVERAL YEARS OF INFLATION, THE VALUE OF THE SPECIFIC TARIFF RATES WAS ERODED. THEREFORE, THE CONVERSION TO AD VALOREM DUTIES FOR IN PIPE AND TUBE AT A LATER, MORE INFLATIONARY TIME RESULTED IN PIPE AND TUBE DUTIES SIGNIFICANTLY LOWER THAN THE DUTIES ON THE LESS FINISHED PRODUCTS, WHICH HAD BEEN CONVERTED TO AD VALOREM IN 1960.

WE ARE SYMPATHETIC TO THE PROBLEMS EXISTING AS A RESULT OF THIS TARIFF INVERSION. HOWEVER, WE OPPOSE THE SOLUTION PROPOSED IN THESE BILLS. THE NEW TARIFF RATES ARE LEGALLY BOUND UNDER THE GENERAL AGREEMENT ON TARIFFS AND TRADE (GATT). THE TARIFF INCREASES FOR PIPE AND TUBE PROPOSED BY H.R. 1336 AND H.R. 2419 WOULD BREACH OUR GATT OBLIGATIONS. IF WE WERE TO RAISE DUTIES ON THESE GATT-BOUND ITEMS UNILATERALLY, WE WOULD HAVE TO OFFER COMPENSATION TO OUR TRADING PARTNERS BY LOWERING OTHER DUTIES OF INTEREST TO THEM.

THE ADMINISTRATION BELIEVES THAT A SOUND ALTERNATIVE SOLUTION EXISTS FOR THE TARIFF INVERSION PROBLEM WHICH WOULD NOT INVOLVE UNILATERAL ACTION AND WOULD NOT REQUIRE THE UNITED STATES TO PAY COMPENSATION. IN THE ONGOING URUGUAY ROUND OF MULTILATERAL TRADE NEGOTIATIONS THE UNITED STATES AND OTHER GATT MEMBER COUNTRIES WILL BE NEGOTIATING ABOUT TARIFFS AS WELL AS MANY, MANY NON-TARIFF ISSUES. CURRENTLY, WE ARE CONSULTING OUR PRIVATE SECTOR ADVISORS TO ESTABLISH U.S. PRIORITIES FOR THESE TARIFF NEGOTIATIONS. THE UNITED STATES HAS THE OPPORTUNITY IN THIS ROUND TO LIBERALIZE TARIFFS IN EXCHANGE FOR TARIFF CONCESSIONS FROM OTHER PARTICIPANTS. ELIMINATING THE TARIFF INVERSION BY LOWERING THE DUTIES ON THE LESS FINISHED PRODUCTS USED TO MAKE PIPE AND TUBE WOULD BE FULLY CONSISTENT WITH OUR GOALS IN THE URUGUAY ROUND AND OUR INTERNATIONAL OBLIGATIONS.

WE HAVE PREVIOUSLY STRESSED OUR WILLINGNESS TO MAKE ELIMINATION OF THIS PARTICULAR TARIFF INVERSION PROBLEM A HIGH PRIORITY FOR THE URUGUAY ROUND. WE RESPECTFULLY URGE THE SUBCOMMITTEE NOT TO REPORT H.R. 1336 AND H.R. 2419 FAVORABLY, BUT RATHER TO ENDORSE THE EFFORT TO ELIMINATE THIS TARIFF INVERSION THROUGH URUGUAY ROUND TARIFF NEGOTIATIONS.

Chairman GIBBONS. Ms. Bello, we appreciate your coming. I don't have any questions.

Mr. Russo?

Mr. RUSSO. Assuming my legislation were to pass, what process exists to deal with the question of compensation?

Ms. BELLO. The trade bill which we all worked on, and which has been enacted into law, does not provide for compensation in these kinds of circumstances. The idea was that whenever the Congress chooses to legislate an increase in tariffs, beyond the bound rate, then the Congress at that time had the opportunity to legislate compensation as well.

The compensation authority that is provided in other circumstances in the Omnibus Trade and Competitiveness Act would not apply.

Mr. RUSSO. It is not automatic?

Ms. BELLO. Unless you provide us independent compensation authority in this bill or in another vehicle, we would not have it. We would be unable to compensate our adversely affected trading partners, and they would be able to retaliate against U.S. exports, consistent with the GATT.

Mr. RUSSO. In your testimony, you point out that in the past, we have discussed the issue of compensation should that be required. Basically, the response I have received is that it would cost somewhere in the area of $2 billion to compensate. From talking to the industry, if we base it on 1987 imports, it instead seems we are talking about 28 to $30 million.

Can you explain to me how the $2 billion figure was arrived at?

Ms. BELLO. I cannot, but I would be happy to respond in writing. Our steel expert had to appear before a different group at the same time.

Mr. RUSSO. I would appreciate it if we could leave the record open so we can receive a response as to how the $2 billion figure was arrived at.

Chairman GIBBONS. Fine.

[The information follows:]

RECEIVED
OCT 24 1988
SUBCOMMITTEE ON TRADE

OFFICE OF THE UNITED STATES
TRADE REPRESENTATIVE
EXECUTIVE OFFICE OF THE PRESIDENT
WASHINGTON
20506

October 18, 1988

The Honorable Sam Gibbons
Chairman
Subcommittee on Trade
Committee on Ways and Means
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

In response to several questions posed at the Subcommittee's hearing on September 22, 1988 regarding H.R. 1336 and H.R. 2419, I wanted to supply the following information for the record.

With regard to questions raised about the level of compensation that could result if H.R. 1336 and H.R. 2419 were enacted, we estimate that the potential revenue effect of these bills would be an increase of $26.3 million, based upon 1987 trade statistics. U.S. import levels in these products have varied over the last few years. In 1986, imports were valued at $918 million, down substantially from 1985-1986 levels. In 1987, imports were valued at $859 million.

The $2 billion figure, cited previously in relation to these bills, represented total imports of pipe and tube for 1985 rather than the potential revenue effect of these bills and thus the amount of compensation owed if they were enacted.

Steel pipe and tube products were imported from over 49 countries in 1987. An additional 21 countries have supplied the U.S. market in recent years. Major suppliers vary substantially by the specific products; however, in general, the primary suppliers are Canada, Japan, South Korea, the European Community, Mexico, Thailand and Taiwan.

Thank you again for the opportunity to testify.

Sincerely,

Judith H. Bello
General Counsel

cc: Cong. Marty Russo
Cong. William Pease

Mr. RUSSO. Let's assume compensation is to be given in this instance. We pass the legislation and provide a mechanism for compensation so you don't have the retaliatory steps that you return to.

Can you explain the process that was used when our country and the European Community negotiated compensation over increased tariffs on U.S. farm products after Spain and Portugal joined the EC?

Ms. BELLO. We sat down with the Europeans; we, in consultation with our private sector advisory committees, decided where we would seek compensation, which of course for the most part was in the sectors which had been adversely affected by the actions in Spain. Therefore, we were seeking compensation primarily in the agricultural area, where we could obtain it; and to make up the deficit, we sought compensation in the industrial area.

Basically, we stay in close touch with the private sector advisory committees, as you know. We know where tariff reductions by our trading partners can be most beneficial to them, and have the greatest prospects for enhancing U.S. competitiveness, and that is where we seek compensation.

Our trading partners try to offer compensation where it is least harmful to their interests. You have to reach agreement with the trading partners on what the compensation is. We could not unilaterally determine what concessions we would make; rather, we have to reach agreement with the trading partners on what those concessions would be.

Mr. RUSSO. Didn't we recently increase tariffs on concentrated orange juice?

Ms. BELLO. Yes, sir.

Mr. RUSSO. That happened a while ago, didn't it?

Ms. BELLO. Yes, Congressman. That is a case with which the chairman is familiar.

Mr. RUSSO. Reconstituted orange juice?

Ms. BELLO. That is correct. We reclassified orange juice to delineate between concentrated and nonconcentrated orange juice. It resulted in an increased column 1 tariff for reconstituted juice, effective January 1, 1985. It was in the Trade and Tariff Act of 1984.

In response to complaints from Canada, which had been the principal GATT supplier to the United States of those products, the United States notified the action to GATT in June 1985. In the absence of an offer of compensation from the United States, Canada notified the GATT of its intention to withdraw its binding on fresh mushrooms and increase the tariff from 12 to 16 percent under Article XXXVIII(3)(i).

This has met with a strong reaction. It provides the Canadian Government an opportunity to keep us out of their mushroom market.

Mr. RUSSO. We are still trying to work out compensation?

Ms. BELLO. The Canadians have only notified their intention. They have not raised the duty to the higher rate, but they preserved their international ability to do so. We are still talking.

Mr. RUSSO. I suspect the same thing would happen if my legislation passed, and you provide a mechanism for compensation, that over a period of time something would be worked out. My concern

is that most of our U.S. major trading partners follow the general rule that higher value-added products receive higher duties.

You and I know, and all the people involved in this issue know that it is only by accident that this inversion has took place, and basically a finished product which value added to it should have a higher tariff than the product that goes into it.

I am sure you are well aware of the worldwide tariffs for sheet tube and steel products. The EC assesses a 6 to 7 percent on tariff, and on finished products, it is 9 to 10 percent. Japan, 5 to 5.7 on sheet and 8 for finished.

So, I can show you our trading partners impose a much lower tariff on the sheet plate than on the finished products. We do it the opposite way, basically because of what happened back in 1982, and this matter was not corrected, and we went to the ad valorem rate on pipe and tube. We impose, if I recall, something like a 1.9 duty.

Let me state it this way: In Canada, we pay a 15 to 30-percent duty on our pipe and tube exports to Canada, while Canada benefits from a 1.9-percent duty for their pipe and tube exports into the United States.

As I indicated, the amount we charge on our sheet and pipe is much higher than we charge on the finished product. Do you think that is a fair situation?

Ms. BELLO. No, we don't think the tariff inversion is good trade policy, and we seek to correct it in the Uruguay Round. I agree with everything you said, with one exception, and I would like to note it:

That is your characterization of this situation as inadvertent and accidental. As I understand it, it was with the industries' acquiescence that we engaged in change from specific duties to ad valorem duties. The industries did not anticipate the inflationary rate which resulted in this discrepancy, so that while changing them from specific to ad valorem, the duties on interim products became higher than the duties on the finished products which underwent the conversion process. That was not entirely accidental.

The industries had a meaningful role in it. They did not anticipate what the result of inflation would be in that conversion process.

Mr. RUSSO. I am certain the industry will have a somewhat different view as to exactly what happened, and rather than me make the case for them, because I can do it based on the specific rate and the ad valorem rate which happened at two different times. The ad valorem was added before we had the big round of inflation.

Basically, you have indicated to me, not only today, but also in a letter, that this is going to be a high priority at the Uruguay Round. How long do you think it will take before we finish the Uruguay Round, and what are the chances of our being successful on this issue?

Ms. BELLO. We are scheduled to conclude by 1990. We can probably give you better advice on scheduling after the midterm review in December. We are bending every effort to stay on schedule. You have helped by providing us fast track review procedures in the trade bill.

The chance for success depends on how high a priority we make it. It is clear that we can eliminate the inversion by reducing tar-

iffs. We don't have tariff proclamation authority to increase duties, but we could do so through the fast track legislation that would apply in the nontariff area.

So, how we plan to proceed is that we will consult with you, the full committee, the Finance Committee, our Congressional advisers, and of course, the industries as well, particularly the private sector advisory committees, and we will try to assess what offers we should be making in the tariff areas.

We have already committed to you that this will be a high priority for us in the tariff negotiations.

Mr. RUSSO. One last comment, Mr. Chairman. Would you be amenable to our passing legislation that would say that in the event we failed in the Uruguay Round, then the legislation will take effect, but if you are successful, then it does not trigger in?

Ms. BELLO. We have had this discussion several times. We are not enthusiastic about that kind of a bill, although it is less troublesome to us than enacting now legislation that is inconsistent with our international obligations. The problem from a trade policy perspective, at least from our side of town, is that it is like holding a gun to the trading partners' heads, and they don't always react favorably.

At this end of the street, there is often a different view about the efficacy of holding a gun to our trading partners' heads.

Mr. RUSSO. All we are trying to do is strengthen your hand, and we may have to do that anyway.

Thank you, Mr. Chairman.

Chairman GIBBONS. Mr. Pease?

Mr. PEASE. Thank you very much, Mr. Chairman.

I would like to ask some questions and get back to the cost, an estimated $2 billion in compensation. You said you were going to get us some figures on that. Mr. Russo came up with a figure of $20 million. There is an awful lot of difference between $20 million and $2 billion.

Can we narrow that down a bit, even on a preliminary basis?

Ms. BELLO. I am sorry, Congressman Pease, I don't have the numbers on that. We would be happy to supply them to you at the earliest possible date, but I don't know how those calculations were arrived at.

Mr. PEASE. You don't know whether the $2 billion represents the total sales that would be affected or whether it represents the amount of the tariff difference when the tariff is raised?

Ms. BELLO. No, I don't. It is such a large number, it would not surprise me if it were sales rather than tariff differences, but I don't know that.

Mr. PEASE. I hope we will pay a good bit of attention to the information we get from the USTR. The $2 billion doesn't seem right to me. It is a little hard to believe that we have $2 billion worth of trade only on pipe and tube, and that if we did, all of the sales would be affected. We are increasing the ad valorem rate by about 4 percent.

I guess the question is, are we talking about potential total sales that would be affected? Are we talking about the total sales that are actually affected?

Despite a 4-percent increase in the ad valorem rate, many of our trading partners will still be able to sell steel in our market because of their competitive situation. I think your $2 billion would scare people off in terms of retaliation by our trading partners; $28 million is not such a scary figure. We have a mistake here, something you recognize as wrong, and we do, too. We want to correct that. It seems reasonable that we would be willing to pay something to correct that error.

Ms. BELLO. Your point and that of Congressman Russo was very well taken. The difference between the figure you have used and the one he has used is so large that it could have a significant influence on the subcommittee's view on this bill. We will undertake to supply that information to you at the earliest possible date, and explain the way we calculated and arrived at that figure.

Mr. PEASE. Whatever the figure is, you tell us that absent our giving you authority in this bill to negotiate a settlement, you could not do that, is that correct?

Ms. BELLO. That is correct. We could negotiate under our constitutional authority, but we have to come back to the Congress to implement any agreement that we achieve.

Mr. PEASE. We could in this bill give you the authority to negotiate and proclaim the changes, correct?

Ms. BELLO. That is correct. That is the rationale for not including authority for this kind of situation in the omnibus bill. The thinking was, if you are choosing to legislate tariff increases, recognizing that they may require compensation, then you have the ability at that time to choose to provide compensation authority.

Mr. PEASE. Would you welcome the addition of such negotiating and proclamation authority to this bill?

Ms. BELLO. We look at trade problems three ways. Our preferred course is to eliminate barriers and not erect them ourselves; our second choice is to obtain compensation or give it; and the last choice is retaliation. So, as compared to retaliation, we would welcome the provision of compensation authority.

Mr. PEASE. If there is not negotiating and proclamation authority, then as I understand it, our trading partners could exercise their GATT rights and unilaterally retaliate against us for this change on our part; is that correct?

Ms. BELLO. That is correct. Although I hasten to add that the reason that compensation is such a secondary choice is that not only does it adversely affect some other industries in the United States, reducing their competitiveness perhaps, but also you cannot be sure you can agree with a trading partner on compensation. If you cannot, they then can seek authority from the GATT to retaliate unilaterally against any of your products of their choice.

Mr. PEASE. They have to go to GATT to seek it, correct?

Ms. BELLO. Yes, which is likely to happen today in Geneva in Superfund, in fact.

Mr. PEASE. That is done on a case-by-case basis?

Ms. BELLO. That is correct, although not all nations use the niceties of going to GATT to seek authority. Some of them act first and seek the GATT's blessing later.

Mr. PEASE. If they seek GATT authority, do they seek it on business they have lost as a result of the United States' action, or do

they seek it on the basis of business that they might potentially lose?

Ms. BELLO. The normal GATT practice is to look retrospectively or historically rather than prospectively. But I hasten to note that we ourselves, in section 301 actions, have contemplated acting prospectively in cases where we think recent experience is not illustrative of what is coming in the future. But the normal GATT practice is to go retrospective.

Mr. PEASE. What impact do VRAs have in this situation? There is a limit on how much our trading partners can send in to us. Presumably, they are all shipping up to their limit now. If we raise our tariff on this product and sales are affected as a result, presumably they have other products they would ship to our country were it not for the VRAs, so they will continue to ship to the maximum level of the VRAs?

Ms. BELLO. I am glad you brought that up, because it limits the adverse effect of the tariff inversion while the VRAs are in effect. We don't think it is good trade policy to have the strange tariff inversion, but the VRAs do limit some of the damage.

I think the answer is that while the VRAs provide for a diversion of merchandise, under GATT rules increased exports of some related but different products don't reduce the bill for compensation.

Mr. PEASE. I understand that compensation, but in terms of the overall tonnage of steel shipped to the United States, that is likely to remain stable at the maximum level allowed by the VRA, even if this increase in tariff were to change the mix somewhat.

Ms. BELLO. I agree with that.

Mr. PEASE. It probably means that our trading partners would not get as exercised as they may otherwise by our action.

Ms. BELLO. They like to take advantage of us wherever they can. As you may know, they are overreacting to the trade bill, which we all think is constructive, and calling it a protectionist, market-closing bill, because that suits their agenda.

The VRAs may reduce the economic harm. Nonetheless, it is sometimes useful to trading partners to take advantage of instances where the United States, which is generally the white-hat member of the GATT, does something that is GATT-inconsistent. That is where we find ourselves, for example, with regard to Superfund.

Superfund has taken on a symbolic importance to our trading partners. They like to remind us about it, because it is an instance where we were found to be acting in violation of the GATT rules.

Mr. PEASE. Do you have an idea of how many different countries ship pipe and tube to the United States?

Ms. BELLO. No, sir, but we can supply that.

Mr. PEASE. It probably would be 15 or 20, don't you think?

Ms. BELLO. That sounds reasonable.

[See letter above.]

Mr. PEASE. From our experience in the past in similar situations, if the number were 15, how many would exercise their right to go to the GATT and get permission to retaliate against the United States?

Ms. BELLO. Past experience in the GATT is not very representative here. In the past, the GATT has been a slower system. The countries have not been as litigious, settlement of disputes did not work so well. Some countries which had surplus trade balances with us did not press for compensation.

In the motorcycle case, for example, we owed Japan compensation, but they never presented a bill, and we never offered it.

My thinking is that that situation will not likely repeat itself. We have taken such an aggressive posture in the last several years that everyone is tickled pink when they have the opportunity to complain about the United States breaching the rules and to demand compensation.

Based on past experience, I have to agree, I think it would be a small number of the 15 countries. But times are changing very fast, though, and I would expect most countries to rush in and underscore, if only for political reasons, that the United States was not in compliance.

Mr. PEASE. If we pursue this from the Uruguay round, do we get involved in specific tariffs and products? Do we get into that kind of minute detail?

Ms. BELLO. You do. Currently, we are still fighting about how we would do them. Some countries want to basically offer formulistic cuts. Other countries want to revert to a more particular, less sweeping "offer and acceptance" procedure, which gets quite specific, of course, immediately.

We will try to work that out hopefully in December at the midterm review in Montreal. In any event, we will try to take care of this particular problem however we proceed with the tariff negotiations.

Mr. PEASE. Okay. I would just like to call your attention to a headline in my local newspaper: "USX to lay off 30 to 40 workers indefinitely from their pipe and tube line at the Lorain Works of USX." So, we are not talking about theoreticals here. There are actually people who are losing their jobs because of pipe and tube imports.

One last question: Would the Administration have any objection to our amending this bill and including an extension of VRAs as part of it? [Laughter.]

Ms. BELLO. We have no prepared position, Congressman.

Mr. PEASE. In the absence of opposition, Mr. Chairman—thank you very much.

Chairman GIBBONS. Mr. Schulze?

Mr. SCHULZE. Thank you, Mr. Chairman.

USTR's position is that this can and should be negotiated under the Uruguay round; is that correct?

Ms. BELLO. Yes, sir.

Mr. SCHULZE. In the meetings which have transpired, has there been any discussion at all of this issue?

Ms. BELLO. There has been no discussion of this or any other specific tariff issues. As I indicated, to date, the discussion has focused on other issues, such as investment, services, functioning of the GATT, dispute settlement.

Regarding tariffs, what we have focused on is the procedures for conducting the tariff negotiations, whether we are going to go the old "offer and acceptance" route or whether we will use formulas.

Mr. SCHULZE. I presume the USTR does not feel the conversion is good policy.

Ms. BELLO. That is correct.

Mr. SCHULZE. Why would we not pursue this in a bilateral manner with the countries involved, as was discussed previously? I think 15 may be high. It may be closer to 8 to 10. I guess the question is, has there been any discussion on a bilateral basis to correct this anomaly?

Ms. BELLO. To my knowledge, there has not, although when you go the offer-acceptance route in the multilateral system, it often can function as a series of bilaterals, because you only talk directly with your principal suppliers. If we go the offer-acceptance route in the Uruguay round, it would be like a series of bilaterals.

I think the real answer to your question is that because we launched the Uruguay round only 2 years ago, I think tariff negotiations have been contemplated to be part of the round, not the principal part, but an important part nonetheless. So we would not try to resolve these problems outside the Uruguay round while it was ongoing.

Mr. SCHULZE. You do understand that without some sort of action, the only response that we have left is to legislate?

Ms. BELLO. Yes, sir, I understand.

Mr. SCHULZE. I don't know exactly where, but somewhere in your testimony, didn't you say this is a high priority?

Ms. BELLO. Ambassador Holmer sent a letter to Congressman Russo just after the hearing in the subcommittee, as I recall, on the miscellaneous tariff package, when he did not introduce this bill as an amendment to that package. We assured him this would be a high priority in the tariff negotiations in the round.

Mr. SCHULZE. When could we expect some action or some definitive action in relationship to that high priority?

Ms. BELLO. Well, I would not expect it prior to the midterm review in December. In December, I think the most we will get is agreement on the procedures for negotiations. But, for example, Ambassador Yeutter wrote Chairman Rostenkowski recently, asking to meet with the full committee to consult with you generally on the Uruguay round. That would certainly be a good time to raise that kind of a matter.

He is meeting now with the Agriculture Committee. He is meeting next week with the Finance Committee.

Mr. SCHULZE. If we have to raise it, that tells me it is not a priority.

Ms. BELLO. No. It is already a priority. We have already assured Congressman Russo. We will consult, as of course we are required to do under the omnibus trade bill. We hope to make progress after the December meeting in Montreal. We want to lay to rest how we are going to do the tariff negotiations, and rather than fighting about procedures, simply negotiating.

It will be between December 1988 and 1990. The next administration will submit to you, in the spring of 1991, a bill to implement

the Uruguay round agreements under the enhanced authority you provided in the omnibus bill.

Mr. SCHULZE. Why would we not try to have some separate negotiations? It seems to me that while we are talking about 9 to 10 or 15 countries, there are probably only four or five that are the major beneficiaries of this anomaly. Why would we not sit down and have some discussions? Aren't there always ongoing discussions in the trade area? Why would not that be a convenient way to work on this problem?

Ms. BELLO. I think the answer is that it might be if we were in an interim period when there were not ongoing multilateral discussions. To conclude pieces of those discussions outside the round could undermine our ability to accomplish our objectives in the round.

Now that we have the round, and now that it is scheduled to conclude in 2 years, I think it makes sense to work in that context.

Mr. SCHULZE. You are saying you do not want to give our negotiators discussion or leverage points to use in the negotiations?

Ms. BELLO. We don't want to violate our international obligations, particularly at this time when we are going to Montreal in December to say that we are committed to the international system and that we, in fact, want to extend the discipline of the GATT to new areas, such as services and trade-related investment measures.

Mr. SCHULZE. What you are saying is in the future if we give you negotiating authority we ought to tighten it down?

Ms. BELLO. You mean a shorter leash?

Mr. SCHULZE. Sure. You are indicating that during this period you do not expect any action out of the STR on any of these issues.

I don't think that is the message you want to send but that is what it sounds like.

Ms. BELLO. I don't think it would be fair to characterize USTR as having sat on its hands. We have accomplished a fair number of things other than simply the round. But for the most part, I think when you have issues that cover many trading partners, if there is a multilateral negotiation ongoing, it makes sense to most people to stay within that framework.

Mr. SCHULZE. Has this inversion distorted the market?

Ms. BELLO. My understanding is that it has, and it is not good trade policy.

Mr. SCHULZE. I think we agree on that.

Now it seems to me one of the main efforts of the STR would be to correct this anomaly. We should use any device that they have, within or without the frame work of the Uruguay round.

I am somewhat disappointed this isn't being done. If there are other tariff inversions and they are causing a distortion of the market, they should be attacked as well. We've got to go to our trading partners and say "look at this distortion" and get them to recognize it. If you would like us to write mirror legislation on some other product of yours we would be happy to do so.

It seems to me, it is time for us to negotiate and not just role over for our trading partners and say, we know we goofed when we put it in and we are going to accept it. We have to start being a little tougher in these negotiations.

Ms. BELLO. The only thing I would like to say is that from your perspective, I think that it is quite legitimate. But the people most concerned about intellectual property probably think we ought to drop everything and negotiate on intellectual property to get a faster solution than we can achieve within the round.

The people who want to expand trade for services, would probably like us to drop intellectual property and steel and put more time and resources into services.

Mr. SCHULZE. You are chartered to do all those things?

Ms. BELLO. But we can't do them all today. We will do as many today as we can.

Some of them have to be tomorrow.

Mr. SCHULZE. Your office has grown, not radically and dramatically, but it has grown, and you have some very bright people who are extremely hardworking and dedicated and efficient.

Ms. BELLO. We thank you.

Mr. SCHULZE. I think you have enough brains down there to handle all these balls at once. This problem is one that is not only critical, but it is one that can be used in a way that puts you in a bad light.

You haven't done anything about it. Your statement earlier that it was not foreseen, perhaps, could be used so we can make sure this doesn't happen in the future, that we put in a clause saying that where these inversions occur, they can be brought up on either side, brought up for discussion at any time.

Mr. Chairman, I thank you for the opportunity.

Chairman GIBBONS. I hope that we can pay particular attention to this univerted tariff problem because if we can get it out of the way it will create a better environment in our country. We are trying to actively attack those problems that are really wrong.

It would seem to me we are in a wrong situation here, and I don't know how we got there. I would hope we did it by accident, not by design. But I can understand how these things occur when we have as many negotiations going on, and we have to conclude them in a short period of time.

But to the extent I can be influential in it, I hope you will make this a very, very high priority. I realize when I say that all I do is increase the price on this item, and perhaps the reason, the real reason, you haven't gone forward and done anything about it, is that you are afraid you would have to pay too much for it in a preliminary process. I imagine that is part of your bargaining technique and that is what we are caught in.

Do you think there is any possibility to solve this problem before we get to the end of the round?

Ms. BELLO. I can't honestly give you an intelligent answer, certainly not before the midterm review in December. One of our objectives in December, of course, is that in those areas where we can't achieve final agreement—which, frankly, will be most areas—we can identify a road map and timetable for achieving concrete results, so that all of it is wrapped up successfully by 1990.

So perhaps at the midterm, after the midterm review in December, we will be able to advise you with some reasonable and honest opinion as to what that schedule could be and whether it can be sooner for this particular item.

Thank you very much.

Ms. BELLO. Thank you, Mr. Chairman.

Chairman GIBBONS. Let's now have a panel of witnesses from the industries.

The Committee on Pipe and Tube Imports, Mr. Feeney, United Steel Workers of America; Mr. Kovack, Speciality Tubing Group, Mr. Werner.

Without objection the statements of all the witnesses will be placed in the record.

We will hear first from the Committee on Pipe and Tube Imports.

Mr. Feeney, would you want to proceed?

STATEMENT OF JAMES FEENEY, CHAIRMAN-ELECT, COMMITTEE ON PIPE & TUBE IMPORTS, AND SENIOR VICE PRESIDENT, WHEATLAND TUBE CO., ACCOMPANIED BY ROGER B. SCHAGRIN, EXECUTIVE DIRECTOR AND GENERAL COUNSEL, COMMITTEE ON PIPE AND TUBE IMPORTS

Mr. SCHAGRIN. My name is Roger Schagrin, and I am executive director and counsel to the Committee on Pipe & Tube Imports.

I thank you for accepting our statement for the record.

Neither Mr. Feeney nor I will read from that statement. However, I do wish to make a couple of points and Mr. Feeney has a short statement to make.

The main points are, first, this tariff inversion is unfortunately a problem that was placed upon the pipe and tube industry by the Government of the United States.

Tariff inversions are against our trade policy objectives. The Congress of the United States got the tariff schedules correct in 1930 when we had higher duties on pipe and tube than we did on the sheet and plate products from which they are produced. Unfortunately, in 1960, a little bit before I was involved in these issues, we changed in the Dillon round the duties on flat wall products to an ad valorem rate and the duties on pipe-rolled tube were maintained at a fixed rate.

Inflation then ensued and by 1979, in the Tokyo round, the United States decided to change the pipe and tube duties to on ad valorem rate with this change in duties, the difference between pipe, tube, and flat-rolled duties was dramatic. In 1960, the duties on pipe and tube were 20 percent higher than the duties on sheet and plate. By 1979, when the duties on pipe and tube were changed, they were then 60 to 80 percent lower than the duties on sheet and plate, and the impact on the industries has been dramatic; pipe and tube imports have averaged 2½ times the import market share on plate and sheet products.

A second issue, and the committee will shortly hear from Berg Steel Pipe, is that this industry is almost completely united in supporting this legislation.

The Committee on Pipe and Tube Imports has 25 producer members. There are well over 100 producers of steel pipe and tube and only one producer opposes this legislation, that being Berg Steel Pipe. It is important for the committee to recognize it is no coincidence Berg Steel Pipe is the only pipe producing company in this

country which is not adversely impacted by this tariff inversion, because they are the only company in the country which has a foreign trade zone which allows them to import the input product, in their case plate, at a higher duty rate, transfer the product into pipe, and bring it into U.S. commerce at a lower duty rate than their input product.

They have suggested in testimony to this committee that every pipe and tube producer in the country should apply for a foreign trade zone to remedy the inverted tariff. We think that is wrong, we think that is bad policy. Foreign trade zones were designed to increase exports. This committee has concentrated on that and Berg's suggestion would be an abuse of the foreign trade zones program and also very disastrous for the steel industry.

And finally, Mr. Chairman, we would like to make one point about our GATT obligations. As Ms. Bello pointed out, GATT does not disallow the U.S. from correcting this inversion, it simply requires if our trading partners ask for compensation that we must engage in negotiations on compensation. We think that is the proper role of the USTR. We have engaged in those types of negotiations in the past and we believe this harm to the pipe and tube industry should be addressed and any compensation that is requested should be spread out over a broader range of products.

I would also point out, because it was not brought up in Ms. Bello's testimony, that the committee has to be careful in monitoring what the USTR does in the Uruguay round, because in USTR's written testimony they seem to submit the answer to this is to lower, through the Uruguay round negotiations, the duties on sheet and plate to the same levels as the duties on pipe and tube.

Our duties on the sheet products and on the pipe and tube products are already lower than all of our trading partners, and for us to make, through the Uruguay round, another unilateral give-away of tariffs, and to put our domestic steel industry at greater risk, I do not think would be good policy. I now would like to ask Mr. Feeney to deliver a short statement.

Mr. FEENEY. Good afternoon.

My name is James Feeney, and I am senior vice president of Wheatland Tube Co. I am the incoming chairman of the Committee on Pipe & Tube Imports. I also serve on the Board of Directors of the American Iron and Steel Institute which is also on the record in support of H.R. 1336 and H.R. 2419.

Wheatland is a non-integrated manufacturer of welded steel pipe and tube products located in Wheatland, Pennsylvania. We also operate production facilities in Chicago, Houston, Cambridge, Ohio, Miami and Auburndale, Florida and maintain our headquarters in Collingswood, New Jersey.

Wheatland, which was established in 1931, was one of the first independent pipe companies in the United States. The company employs 500 people at our Wheatland facility and all of our production and maintenance employees are represented by the United Steelworkers of America. Management has an excellent relationship with the USW. Our work force is very productive, hardworking, knowledgeable and well trained which makes our organization very competitive with both domestic producers and our foreign competitors.

I have been with Wheatland since 1963. I must admit that prior to the mid-1970's Wheatland did not see much foreign competition. We were primarily concerned about our domestic competition. Since the late 1970's the situation has changed dramatically. Our main competition has been from imported pipe, much of it unfairly traded. By 1984, when the Steel Stabilization Act was enacted, imported pipe and tube had taken about two-thirds of our domestic market. As someone who is in charge of purchasing our steel and making sure that Wheatland is productive and competitive, there is no doubt in my mind that the tariff inversion between flat-rolled sheet steel products and pipe and tube products has been harmful to our company, both in terms of our profit margins and our market share.

Let me explain the reasons for this. Wheatland purchases all of its flat-rolled steel from basic integrated steel manufacturers. We buy principally domestic steel, but have purchased foreign steel at times in the past because I have a responsibility to buy steel at the most competitive prices. Domestic sheet prices usually reflect the competitive net delivered costs of their foreign rivals including the price of the sheet and the duty. Whether Wheatland is purchasing foreign or domestic sheet, the higher duties, in essence, are absorbed by us either directly or indirectly.

When Wheatland competes in the U.S. market with foreign pipe, the low duty on pipe as compared to sheet enables the importers to undercut our prices and thus gain market share. Our ability to generate profits impacts on our ability to reinvest in our facilities. When our margins are squeezed, there is less capital available for reinvestment in plant and equipment or for research and development.

This is, of course, not the only reason that we suffer from such severe import competition. Unfair trade practices are another major reason. Since the beginning of the VRA program, we have seen a tremendous surge in imports from countries not covered by the program. These countries, such as Thailand and Turkey, obtain their sheet from VRA countries. The tariff inversion encourages steel producers in VRA countries to circumvent the VRAs by shipping their sheet steel to non-VRA countries where the sheet is manufactured into pipe products that are subsequently shipped to the U.S. When the pipe products enter the U.S., they are assessed a lower duty than sheet steel.

The CPTI has consistently combatted trade practices that are in violation of U.S. trade laws. However, there is no present law that enables us to combat the tariff inversion and that is why we have come to you for your help and support for H.R. 1336 and H.R. 2419.

Thank you.

[The statement of Mr. Feeney follows:]

Statement of

James Feeney, Chairman Elect
and
Roger B. Schagrin, Executive Director

on behalf of

The Committee on Pipe and Tube Imports

The Committee on Pipe and Tube Imports (CPTI) is pleased to present its views in support of H.R. 1336 before the House Ways & Means Subcommittee on Trade. Our testimony primarily concerns H.R. 1336, a bill to correct the duty inversion on carbon steel pipe and tube products, the products manufactured by our member companies. However, we also support H.R. 2419 which would accomplish the same goals for producers making stainless steel pipe and tube products.

H.R. 1336 would correct an unfair tariff inversion that is harmful to the U.S. pipe and tube industry. The legislation would raise pipe and tube tariffs to the level imposed on the inputs for these products, steel sheet and plate. It would increase the tariffs on most welded steel pipes and tubes from their present range of 0.5% to 1.9% to a range of 4.9% to 6.5%.

The CPTI is asking Congress to correct this duty inversion for several reasons: it is contrary to the fundamental purpose behind the tariff schedules; it occurred as a mistake; it serves no useful purpose; and it is unfair.

The inverted tariff is contrary to the fundamental purpose behind the tariff schedules. As a general rule, the Tariff Schedules of the United States (TSUS) apply higher tariffs on higher valued products. In other words, as value is added to a manufactured product, the tariff rate increases. This is not the way, however, that steel pipes and tubes are treated in the TSUS. The raw materials used in the production of steel pipes and tubes, sheet and plate, carry tariffs that are significantly higher than the tariffs on pipes and tubes.

It is important to note that our major trading partners also embrace the general rule that higher value-added products bear higher duties. Their tariffs on pipe and tube products are in fact uniformly higher than their tariffs on sheet and plate products. They are also higher than U.S. steel tariffs across the board.

The inverted tariff occurred as a mistake. Prior to 1960, the duties on pipes and tubes were higher than the duties on steel sheets and plates. In 1960, however, the duties for sheets and plates were changed to an ad valorem rate of 10%, or about $5.00 per ton at prevailing prices, while the duty on pipe remained at the specific rate of 0.30 cents/lb, or about $6.00 per ton. Inflation struck in the late 1960's and 1970's, causing steel prices to more than quadruple. By 1975, duties on sheet and plate were $20 per ton and those on pipe and tube remained at $6.00 per ton. Through an oversight, this inversion was not corrected at the time that pipe and tube products were converted to an ad valorem tariff rate.

The inverted tariff serves no useful purpose. In fact it is harmful to the U.S. pipe and tube industry. It is an anomaly which encourages the retention of added value offshore. In 1979, import penetration of all pipe and tube products amounted to 26.1%. By 1984, prior to the steel VRA program, imports of steel pipe and tube products had escalated dramatically to account for nearly 60% of the market. While the overall steel industry faced an import penetration rate of about 21.0% in the first half of 1988, the import penetration rate for the pipe and tube sector was nearly 43%.

A major reason for this high level of import competition is that the tariff inversion encourages foreign producers to process sheet into pipe. They get the benefit of the value added in their country and save 4%-5% per ton. Thus, foreign producers have an incentive to ship pipe rather than sheet, and obtain a further price advantage over domestic producers. The fact that Japan, Korea, and the European Community have all used flexibility provisions in their VRAs to shift tonnage from flat-

rolled products to pipe and tube products is proof of this incentive.

The tariff inversion is unfair. As described above, it provides a duty incentive for foreign steel companies to convert sheet and plate into pipe and tube for export to the U.S. It encourages circumvention of the VRA program. For instance, the Japanese and other VRA countries have been selling sheet to Thailand for conversion into standard pipe destined for the U.S. market. Thailand never shipped standard pipe to the U.S. prior to 1985. Pipe imports from Thailand have increased from 35,000 tons in 1985 to 87,000 tons in the first half of 1988.

It is also unfair to our companies located on the Gulf and West Coasts which buy imported sheet and must pay the higher duty for these raw materials resulting in a higher cost for their product compared to the cost of finished pipe that is imported at the lower duty. The inverted tariff depresses pipe and tube prices in comparison to sheet prices, squeezing profit margins and increasing losses for pipe and tube producers.

To provide some information about our industry, the United States pipe and tube industry is made up of mostly non-integrated producers in nearly every state in the union with Illinois, Pennsylvania, Ohio, Michigan, California, Missouri and Texas accounting for the bulk of production. The industry operates some of the most modern and efficient mills in the world. It has continually invested in its facilities to both lower the costs of production and advance its capability to produce more sophisticated products. Even though the pipe and tube industry is one of the leanest, most efficient sectors of the steel industry, it has lost about half of its work force, approximately 15,000 jobs, since the early part of this decade. Prior to the VRA program, many facilities were shut down, including most pipe and tube mills formerly operated by the integrated companies.

Steel pipes and tubes are among the most important basic industrial materials of the 20th Century. These products are an essential component in the infrastructure of America. They are a key element in the systems which bring us water, energy, and electricity. These products are vital components of military and civilian powerplants throughout the country, including tubing for nuclear reactors. Oil country tubular goods (OCTG), which are used to retrieve petroleum or natural gas from the ground or ocean deposits, are critical to domestic energy independence. Pipe and tube products are also components of military vehicles, tanks, warships, and other sophisticated military equipment.

This legislation is supported by the CPTI, the American Iron and Steel Institute, and the United Steelworkers of America. Two pipe companies are on the record as being opposed to the legislation. We would like to take this opportunity to comment on the opposition by Berg Steel Pipe Corp. and Hoesch America, Inc.

In written testimony before the Trade Subcommittee, Mr. Lewis Leibowitz, Counsel to both Berg and Hoesch, raised objections to this legislation. He stated that a bill to correct the tariff rate inversion is unnecessary because the Foreign Trade Zone (FTZ) laws are designed to correct tariff inversions on a case-by-case basis.

The use of FTZs by the domestic pipe and tube industry to circumvent the tariff inversion would be impractical, if not impossible, and damaging to the domestic steel industry. Congress created FTZs to encourage exports, not to evade import duties. The Foreign Trade Zones Board is extremely unlikely to grant requests by each domestic pipe producer to approve an FTZ. In fact, the last U.S. company that requested a FTZ was granted one for export only. The only pipe company in the U.S. that has

a FTZ that allows it to ship into the U.S. is Berg, which is, not surprisingly, the reason for their opposition. They simply wish to preserve the advantage they have over their domestic competitors.

If all U.S. pipe companies used FTZs, then they would be encouraged to import sheet rather than buy domestically. Currently, most U.S. producers of pipe buy most of their sheet from domestic steel companies. It would be harmful to the steel industry and contradictory to the goals of the VRA program to encourage a shift to imported sheet by pipe producers, one of the steel industry's biggest customers.

It makes little sense to tackle the problems caused by the tariff inversion on a case-by-case basis through FTZs when a simple structural correction can benefit the whole pipe industry without resulting in harm to the whole steel industry.

Berg has also registered a complaint that H.R. 1336, in its current form, would not correct the duty inversion between plate and large diameter line pipe, the product Berg makes. We support an amendment to the legislation to correct this inversion. In order to do that, we would recommend that a new eight digit category be created for large diameter line pipe over sixteen inches in outside diameter with a column 1 duty of 6%, equal to the duty on plate under TSUS item 607.66.

Hoesch is opposed to H.R. 1336 because it is an importer of unfinished pipe and tube which is then finished into OCTG in the U.S. They pay only a 0.5% duty on unfinished OCTG shells from their German parent. Hoesch currently enjoys a competitive advantage over domestic finishers because of the inverted tariff. A domestic OCTG producer would pay a 4.9% duty on imported sheet. Hoesch's opposition is understandable. However, is it good policy to maintain an unfair and unintended tariff inversion because it benefits one finishing facility in the U.S.? We think not.

The only other registered opposition to this bill is from the Administration. USTR is opposed because pipe and tube duties are bound by the GATT and the U.S. would be required to compensate our trading partners by lowering other duties. Ambassador Yeutter claims that the amount of compensation due would be over $2 billion.

First of all, we would like to point out that contrary to popular belief, it is not illegal under the GATT to raise tariffs. The GATT recognizes that countries may need to raise tariffs in certain instances. When USTR says that steel tariffs are bound, it means that under Article XXVIII of the GATT we must provide compensation to any trading partner who will be affected by the increase and who requests such compensation. In 1984, for instance, the U.S. raised the tariffs on reconstituted orange juice as a result of legislation approved by this subcommittee. To our knowledge, USTR is still engaged in negotiations concerning the compensation requested by the Canadians.

Our trading partners have also raised tariffs. For example, when Spain became a member of the European Community, it raised its tariffs on agricultural products to meet the higher common tariffs of the EC. The United States requested and received compensation of about $300 million in reciprocal tariff cuts. The cuts were spread out over many products so as to neutralize the effect on any particular industry.

As to the amount of compensation we might owe, the $2 billion figure is way out of line. The amount of compensation we will actually owe will be very modest. Based on 1987 import levels, this bill will amount to an increase of only about $28.7 million in duties.

Compensation need only be given to members of GATT who request it. Compensation can be spread out over many products and many industries so that the negative effects of this duty increase can be reduced to the point of being benign, similar to the way the EC handled our compensation for their agricultural duty increases.

We recognize that compensation requests take some time to work out. Compensation for the 1984 tariff increases on orange juice are still being negotiated. But considering the fact that the U.S. is currently engaged in the Uruguay Round GATT meetings, our negotiators can work out the need for compensation within the context of those meetings. During the Subcommittee markup of miscellaneous tariff bills on July 7, 1988, USTR General Counsel Judith Bello stated that the Administration would negotiate a correction of the inverted tariff within the context of the Uruguay Round. We support a negotiated solution but believe that Congress should pass legislation in case USTR is unsuccessful with their negotiations.

Some believe that this problem could be better addressed by lowering the duties on steel plate and sheet. This solution is unacceptable because it would damage one segment of the industry while helping another. The solution to this problem should benefit the entire industry, not just one segment.

The Committee on Pipe and Tube Imports respectfully requests that the members of the Trade Subcommittee take a hard look at this inverted tariff problem with an open mind. The issue is not black or white, protectionist or free trade. It is a complex problem that we believe must be addressed. Unfortunately, it is a problem that we cannot solve through any business or legal actions. It is strictly a political problem which must be addressed by our elected officials. We believe that H.R. 1336 provides a modest and equitable way to solve the problem. We respectfully request the support of the Trade Subcommittee for this important legislation.

Chairman GIBBONS. We go next to Mr. Kovack.

STATEMENT OF KENNETH S. KOVACK, ASSISTANT DIRECTOR, LEGISLATIVE DEPARTMENT, UNITED STEELWORKERS OF AMERICA, AFL–CIO

Mr. KOVACK. Thank you.

Pursuant to your statement that our prepared statement will be included in the record, I would reduce what I have prepared here to four statements.

One being the policy behind the tariff schedules is to have higher duties as value is added, I think all of us agree to that.

Attached to my testimony, I wish to bring to your attention a list of pipe and tube manufacturing facilities that have been closed down in this decade and during this time more than 15,000 steel workers have lost their jobs in the U.S. pipe and tube industry.

Third, we recognize as every one else does that both market conditions and trade practices have contributed to these closures. However, in this sensitized market, it need not be further aggravated by what we consider to be a fluke that has occurred in the tariff code.

The effect of the tariff inversion has been to further transfer jobs in the pipe and tube industry from U.S. to other countries overseas.

Last, on behalf of the steel workers making pipe and tube products, we urge this panel use every effort possible to right his inequity by supporting the legislation that has been introduced by Congressman Russo.

Thank you.

[The statement of Mr. Kovack follows:]

Statement of Kenneth S. Kovack

Representative

United Steelworkers of America

Good Afternoon. My name is Kenneth S. Kovack and I am the Assistant Director of the Legislative Department of the United Steelworkers of America. I am here today to present the views of the United Steelworkers in support of H.R. 1336 and H.R. 2419 to correct the tariff inversion on carbon and stainless pipe and tube products.

Mr. Chairman, The policy behind the tariff schedules is to have higher duties as value is added to encourage the importation of raw materials so that work on finished goods takes place in the United States. That is the way the tariffs are for most products, including steel. For instance, the duty on cold-rolled sheet is higher than the duty on hot-rolled sheet; galvanized sheet is more than cold-rolled; stainless is more than galvanized. That's the way it should be. Steelworkers as well as the rest of the trade unions support this concept because we are the people that add the value. Added value is another term for jobs.

Attached to my testimony is a list of pipe and tube manufacturing facilities that have been closed down in this decade. During this time, more than 15,000 steelworkers lost their jobs in the U.S. pipe and tube industry. Amongst the major facilities that have been closed are LTV's Aliquippa and Youngstown facilities, US Steel's Baytown and Gary Works, Wheeling Pittsburgh's Benwood, West Virginia facility, Bethlehem's Sparrows Point, and Quanex's Atlantic Tube Division in Plainfield, New Jersey to name a few. In many of these areas, the closure of these facilities decimated their communities. When the U.S. looses capacity to produce pipe and tube products, we also loose capacity to produce the sheet that supplied those pipe and tube companies. Both market conditions and trade practices have contributed to these closures. However, we are concerned that such a sensitized market not be further aggravated by this fluke in the tariff code. The effect of the tariff inversion has been to further transfer jobs in the pipe and tube industry from the U.S. to other countries overseas.

The United Steelworkers has been committed to increasing productivity and the competitiveness of the steel industry. We've accepted wage reductions and changes in work rules to try to preserve jobs. But we need Congress to do its part. We are not asking for unfair protection. We are asking that these tariffs be brought into line with accepted policy. American workers are being hamstrung by a mistaken and inequitable tariff policy. On behalf of the steelworkers still making pipe and tube products, I urge you to right this inequity by supporting this legislation. Thank you.

CLOSING OF PIPE AND TUBE FACILITIES IN PAST 10 YEARS

Mill	Location
Alpha Tube	Los Angeles, CA
American Seamless Tube	Baltimore, MD
Armco	Houston, TX
Armco	Ambridge, PA
Atlantic Steel Co.	Tallapoosa, GA
Atlantic Tube Div. of Quanex	Plainfield, NJ
Bethlehem Steel	Sparrows Point, MD
Central Steel Tube	Clinton, IA
Donovan Steel Tube	Toledo, OH
Illinois Tube Co.	Chicago, IL
Kaiser Steel Corp.	Fontana, CA
LTV	Aliquippa, PA
LTV	Youngstown, OH
Merchant Metals, Gibralter Tube Div.	Houston, TX
National Pipe	Liberty, TX
*Pittsburgh Tube	Monaca, PA
Standard Tube of Detroit Corp.	Detroit, MI
Torrance Tubing & Conduit Co.	Torrance, CA
United States Steel	Baytown, TX
United States Steel	Gary, IN
*United States Steel	Lorain, OH
Van Huffel	Warren, OH
Van Huffel	Oil City, PA
Wheeling-Pittsburgh	Benwood, WV
Wilco U.S., Inc.	Port Sanilac, MI
Youngstown Sheet & Tube	Indiana Harbor, IN
Youngstown Sheet & Tube	Youngstown, OH

* Indicates partial closing of mill, but facility still operating at reduced level.

Chairman GIBBONS. Thank you, Mr. Kovack.
Now, Mr. Werner.

STATEMENT OF GEORGE F. WERNER, CHAIRMAN, SPECIALTY TUBING GROUP, AND PRESIDENT, DAMASCUS TUBULAR PRODUCTS, A DIVISION OF SHARON STEEL, INC., ACCOMPANIED BY PATRICK FAZZONE, COUNSEL, SPECIALTY TUBING GROUP

Mr. WERNER. My name is George F. Werner. I am president of Damascus Tubular Products, a division of Sharon Steel, Inc., and I am chairman of the Specialty Tubing Group on behalf of which I appear today.

My company, Damascus Tubular Group is a national coalition comprised of the principal producers of welded stainless steel pipe and tube. The members of the group are located throughout the United States and account for a substantial portion of total U.S. production of welded stainless steel pipe and tube.

The Specialty Tubing Group urges the Trade Subcommittee to adopt H.R. 2419, legislation which would address the tariff inversion that exists with respect to welded stainless steel pipes and tubes.

Welded speciality tubing is utilized in machinery or construction settings where high strength, corrosion resistance, heat resistance, and/or attractive appearance is required. Stainless steel pipes and tubes are an essential component in the infrastructure of America.

They are a key ingredient in the system which brings this country water, energy, electricity and other resources that are essential to our way of life.

Maintaining domestic sources of stainless steel pipe and tube is critical to America's national security. Our products are vital components of military and civilian power plants throughout the country, including tubing for nuclear reactors.

The tubing that goes into the aircraft that is manufactured in the United States for hydraulic and air ducting lines is primarily welded and drawn stainless steel and high nickel tubing produced only by domestic U.S. producers. Our foreign brethern distain those kinds of commodities because the tubing is too technical and too small and there is no big tonnage involved. It is a limited market but that is a critical application each time your wing flaps go up.

The stainless steel pipe and tube segment of the domestic stainless steel pipe and tube industry operates some of the most modern and efficient mills in the world. It has continually invested in its facilities to both lower the cost of production and advance our capability to produce more sophisticated products.

Despite our high degree of competitiveness and our essential role in the United States infrastructure and economy, our industry is severely threatened because of a tariff inversion which provides an artificial incentive for foreign imports in the United States.

Due to this inversion, existing tariffs on imports of pipe or tube are actually lower than the tariffs on stainless steel sheet, strip and plate—the products from which pipes and tubes are produced. This provides an artificial incentive for foreign producers to convert flat-rolled products to tubing offshore and thus benefit from the lower tariffs in effect on pipes and tubes. The result is to en-

courage much higher levels of import penetration than if the tariff rates were on a par with those for flat-rolled products.

This problem is exacerbated by natural economic incentives in the speciality tubing industry. Stainless steel tubing has a relatively high unit value, and it is a naturally attractive market for foreign producers.

The combination of natural economic factors and the artificial incentive of the tariff inversion focuses particular attention on our segment of the industry, with disastrous results. In the first 6 months of 1988, for example, import penetration stood at nearly 40 percent of the U.S. consumption.

The consequence of this extraordinary degree of import penetration is depressed indicators throughout the industry. The evidence of the injury suffered by the U.S. industry is clear and compelling.

Throughout the 1980's, all indicators of the industry's health turned sharply downward. Domestic production, capacity utilization, domestic shipments and employment declined sharply or languished at extremely low levels.

One of the members of the Speciality Tubing Group, Trent Tube Division of Crucible Industries, closed three of its seven welded specialty tubing production facilities during that period.

Another main producer, Carpenter Technology Corporation, closed down its welded stainless steel pipe and tube operations completely in 1986—because of the onslaught of imports.

Of the six members of the specialty tubing group, four have been forced to lay off significant numbers of workers during this entire period. One of the most massive layoffs occurred when Carpenter Technology was forced to close its facilities.

My own company, Damascus Tubular Products, suffered a significant reduction in the number of employees between January 1984, and June 1987. The fact that the most technologically advanced U.S. companies have been forced from the market or forced to severely curtail employment is stark evidence of the disastrous results of encouraging imports artificially.

While indicators in the industry have improved somewhat in 1988, due to the negative incentive to imports caused by the decline in the dollar, the industry is far from healthy. Unless the tariff inversion is eliminated, imports will again surge once the dollar strengthens even slightly against the currencies of our major competitors.

In summary, what has happened is that industry and jobs in the United States have been replaced by jobs offshore in foreign countries. We have permitted these jobs to be stolen from us for the simple reason that we have allowed a tariff inversion to exist which has encouraged this foreign competition.

Other foreign suppliers have been careful to avoid this type of result in their tariff schedules. In failing to do this, the United States has placed our industry in a position of serious decline throughout the 1980's.

In the face of import competition, encouraged in large part by the tariff inversion, the stainless steel pipe and tube industry has not been idle. We have actively pursued unfair trade cases where we have been able to do so.

We have worked actively with the United States trade bureaucracy to obtain relief against dumped imports from such countries as Taiwan. We worked actively with the Administration to have pipe and tube included in the Voluntary Restraint Agreements on steel imports that the administration concluded with a number of foreign suppliers in 1985.

However, the fact of the matter is that, with an inverted tariff, relief against one foreign supplier merely encourages other foreign producers to rush into the United States market.

I would like to address just quickly here the comment Ms. Bello made about the VRA's having an inhibiting influence on the effect of this tariff inversion situation.

The fact of the matter is that our technical markets are flooded at this point with imports from Taiwan. Taiwan has no voluntary restraint agreement whatsoever in place.

In summary, correction of this inverted tariff will help stem the job losses in the stainless steel pipe and the tube industry and encourage our efforts to reinvest and modernize for future years.

America's access to basic necessities such as petroleum, heat, power, light, and sanitation depend on stainless steel pipe and tube products. This country's way of life, as well as its capability to defend itself are at risk without maintaining a vigorous domestic industry base for its products.

For this reason, we urge that the Trade Subcommittee adopt H.R. 2419 to remove the current inverted tariff on welded stainless steel pipe and tube imports.

I would also like to quickly address this issue of compensation. I can't even envision what $2 billion is, but I can tell you that our industry's calculation concerning this compensation question in its simplest terms boils down to less than $1.2 million and that is predicated on an average importation in 1986 and 1987 of approximately $26 million in imports of welded stainless steel pipes and tubes. The difference between the tariff presently in existence on our products and the tariff we are seeking would equate to less than $1.2 million.

[The statement of Mr. Werner follows:]

United States House of Representatives
Committee on Ways and Means
Subcommittee on Trade

Statement of George F. Werner, President
Specialty Tubing Group

My name is George F. Werner. I am President of Damascus Tubular Products, a division of Sharon Steel, Inc. and am Chairman of the Specialty Tubing Group on behalf of which I appear today. The Specialty Tubing Group which includes Damascus Tubular Products is a national coalition comprised of the principal producers of welded stainless steel pipe and tube. The members of the group are located throughout the United States and account for a substantial portion of total U.S. production of welded stainless steel pipe and tube.

My purpose in appearing here today is to present our views regarding H.R. 2419, which would correct a tariff inversion that currently exists with respect to welded stainless steel pipes and tubes. The Specialty Tubing Group urges that this legislation be adopted by the Subcommittee on Trade.

Welded stainless steel pipe and tube is produced by forming stainless steel flat rolled products into a tubular configuration and welding along the seam. Depending upon the pipe diameter and wall thickness desired, stainless strip, sheet and occasionally plate can be used. Welded specialty tubing is utilized in machinery or construction settings where high strength, corrosion resistance, heat resistance, and/or attractive appearance is required.

Stainless steel pipes and tubes are an essential component in the infrastructure of America. They are a key ingredient in the systems which bring this country water, energy, electricity, and other resources that are essential to our way of life.

Maintaining domestic sources of stainless steel pipe and tube is critical to America's national security. Our products are vital components of military and civilian power plants throughout the country, including tubing for nuclear reactors. Pipe and tube products are also components of military vehicles, tanks, warships, and other sophisticated military equipment. The aerospace industry uses hydraulic line tubing, instrumentation tubing, structural members made with stainless and other alloy pipe because of their unique corrosion resistance, strength, and special properties.

The stainless steel pipe and tube segment of the domestic steel industry operates some of the most modern and efficient mills in the world. It has continually invested in its facilities to both lower the cost of production and advance our capability to produce more sophisticated products. Notwithstanding our high degree of competitiveness and our essential role in the United States infrastructure and economy, our industry is severely threatened because of the tariff inversion, which provides an artificial incentive for foreign imports to the United States.

The precise problem confronted by stainless steel pipe and tube producers is that existing tariffs on imports of pipe and tube are lower than the tariffs on stainless steel sheet, strip and plate -- the products from which pipes and tubes are produced. This tariff inversion provides an artificial incentive for foreign producers to convert flat-rolled products to tubing offshore and thus benefit from the lower tariffs in effect on pipes and tubes. The result is that foreign producers pay a far lower tariff than they would be required to pay if they exported the sheet, strip and plate product directly into the United States.

The consequence of the present tariff inversion on stainless steel pipe and tube is to encourage much higher levels of import penetration than if the tariff rates were on a par with those for flat-rolled products. This problem of artificially induced import penetration is exacerbated by natural economic incentives present in the specialty tubing industry. Stainless steel tubing has a relatively high unit value, and it is a naturally attractive market for foreign producers. The combination of natural economic factors with the artificial incentive of a tariff inversion focuses particular attention on this segment of the steel industry, with disastrous results. In the first six months of 1988, for example, import penetration for all specialty tubing stood at nearly 40 percent of U.S. consumption.

The consequence of this extraordinary degree of import penetration can be readily appreciated by examining conditions in the U.S. industry since the early 1980s. As U.S. imports of stainless steel pipe and tube have captured an increasing share of the specialty tubing market, indicators in the industry have showed severe decline.

The evidence of injury to the United States industry producing stainless steel pipe and tube as a result of imports throughout the world is clear and compelling. During the period 1981 through 1987, all indicators of the industry's health turned sharply downward. Domestic production of stainless steel pipe and tube declined steadily during the period 1981 - 1987. During the period 1981 - 1985 alone, production of U.S. firms fell by nearly thirty percent. One of the members of the Specialty Tubing Group, Trent Tube Division of Crucible Industries, closed 3 of its 7 welded specialty tubing production facilities during that period. Another main producer, Carpenter Technology Corporation, closed down its welded stainless steel pipe and tube operation completely in 1986 -- because of the onslaught of imports. Despite these cutbacks in production, capacity utilization continued to fluctuate at extremely low levels during this entire period.

Domestic shipments from U.S. mills followed a similarly disastrous decline between 1981 and 1987, dropping 25 percent in volume between 1981 and 1985. The dollar value of shipments dropped by an even larger amount (42 percent) during that period. These declines in shipments occurred despite increasing consumption in the United States, as domestic shipments were replaced in the market by artificially induced imports.

Predictably, these disastrous declines in production and shipments had a tremendous negative effect on domestic employment. The average number of employees employed in the production of our welded stainless steel pipe and tube products has declined steadily since 1981. The average number of production and related workers fell by 42 percent between 1981 and 1985 and by an additional 16 percent between the first half of 1986 and the same period in 1987. The average number of hours worked by production workers declined by similarly large percentages.

Of the six members of the Specialty Tubing Group, four were forced to lay off significant numbers of workers during this entire period. One of the most massive layoffs occurred when Carpenter Technology Corporation was forced to close its stainless steel pipe and tube operations because of import competition. My own company, Damascus Tubular Products, suffered significant reductions in the number of employees between January 1984 and June 1987. The fact that some of the leading and most technologically advanced U.S. companies have been forced from the market, or forced to severely curtail employment, is stark evidence of the disastrous results of encouraging imports artificially.

While indicators in the industry have improved somewhat in 1988 -- due to the negative incentive to imports caused by the decline of the dollar -- the industry continues to be far from healthy. Moreover, unless the tariff inversion is eliminated, imports will again surge given the slightest strengthening of the dollar against the currencies of our major competitors.

In short, what has happened is that industry and jobs in the United States have been replaced by jobs in foreign countries. We have permitted these jobs to be stolen from us for the simple reason that we have allowed a tariff inversion to exist that encourages this foreign competition. Other foreign suppliers have been careful to avoid this type of result in their tariff schedules. For example, the European Community charges a 6 to 7 percent duty on sheet and a 9 to 10 percent duty on pipe and tube. South Korea proposes a 20 percent tariff on sheet and 25 percent tariff for pipe and tube. Indeed, every major steel exporter charges a duty for pipe and tube imports that is greater than or equal to the duty for sheet imports. The United States, in failing to do this, has placed its industry in a position of serious decline throughout the 1980's.

In the face of import competition, encouraged in large part by the tariff inversion, the stainless steel pipe and tube industry has not been idle. We worked actively with the Administration to have pipe and tube included in the voluntary restraint agreements on steel imports that the Administration concluded with a number of foreign suppliers in 1985. We have actively pursued unfair trade cases where we have been able to do so. In 1986, we filed antidumping and countervailing duty cases against Sweden in response to its blatant dumping of imports into the United States market. We have worked actively with the United States trade bureaucracy to obtain relief against dumped imports of stainless steel pipe and tube from Taiwan. However, the fact of the matter is that, with the inverted tariff, relief against one foreign supplier merely adds to the incentive for other foreign producers to rush into the United States market.

Finally, the present tariff inversion not only is unfair to the United States industry, but is also inconsistent with the general treatment of finished commodities under the United States tariff schedules. In general, these schedules are based on the principle that tariffs should increase as the degree of finishing on a commodity increases. Thus, for example, the present tariff schedules impose a higher tariff on the more highly finished stainless steel sheet and strip than on the slabs and other semi-finished products used to produce the sheet and strip. Tariff treatment of stainless steel pipes and tubes, which in turn are more highly finished than the stainless steel sheet, strip and plate from which they are manufactured, is an unwarranted departure from the normal operation of the tariff schedules.

The courts interpreting the tariff schedules have confirmed this basic principle. As the Court of Customs and Patent Appeals made clear: "It would be anomalous to admit the finished product at a lower rate of duty than applies to the material from which it is produced. Such anomalies are generally looked upon as being contrary to legislative intent." United States v. J. M. Lehman Company, 22 C.C.P.A. 108 (1934). Plainly, the inversion of the tariffs on stainless steel pipe and tube is precisely the type of anomalous tariff treatment that Congress intended to avoid under the tariff laws. For this reason alone, the tariff inversion should be eliminated.

A correction of this inverted tariff will help stem the job losses in the stainless steel pipe and tube industry and encourage our efforts to reinvest and modernize for future years. America's access to basic necessities such as petroleum, heat, power, light, and sanitation depend on stainless steel pipe and tube products. This country's way of life, as well as its capability to defend it, are at risk without maintaining a vigorous domestic industry base for these products. For this reason, we urge that the Trade Subcommittee adopt H.R. 2419 to remove the inverted tariff on welded stainless steel pipe and tube imports.

Mr. RUSSO. One thing I would like to make clear at this hearing is that we would hope USTR would get us those numbers very quickly. I get nervous when they tell me at the earliest possible time they will get them to us.

I waited 5 years for a study from HFCA on the effect of the so-called national rates on DRGs affecting Midwestern hospitals, so I certainly hope USTR will get his to us very quickly.

Obviously they have the number. They must know how they arrived at the number. I would suspect what they would do is go back to where they got it and show us how they did it.

It seems to me something ought to be pointed out, Mr. Chairman, when he used the VRA argument to indicate—isn't it a fact imports of steel products from non-VRA countries are running substantially ahead of last year over the same period in 1987? Isn't the non-VRA increase——

Mr. SCHAGRIN. In 1984, prior to negotiations of VRAs, from VRA countries were 90 percent and non-VRA countries held approximately 5 percent of the market. Today, in 1988, about 40 percent of our imports of pipe and tube are coming from non-VRA countries and they have close to 20 percent of the market. They have almost quadrupled their market share.

So the tariff inversion as well as unfair trade practices have just shifted the problem from VRA countries to non-VRA countries.

Mr. RUSSO. There is no guarantee we are going to extend the VRA next year anyway.

Mr. SCHAGRIN. Not that we have or anybody else in the industry has.

Mr. RUSSO. U.S. tariffs on steel sheet and pipe and tube are lower than those imposed by our foreign competitors. That is a fact.

Can you supply us with some numbers to indicate what those are?

Mr. SCHAGRIN. I think you already mentioned some of those.

Mr. RUSSO. I want to make sure I get that on the record.

Mr. SCHAGRIN. You do have it correct. I can say without hesitation, that for each and every one of the United States trading partners, whether major or even smaller countries, on both sheet and pipe and tube products are higher than the U.S. Steel tariffs, and also without exception their duties on pipe and tube products are either at the same rate or higher than their duties on sheet products.

We are the only country in the world, industrialized or otherwise, which has this tariff inversion between pipe and tube and sheet and plate steel.

When the administration witness indicated she thought the industry participated in tariff negotiations so they knew what was happening, I don't think that is an accurate statement of exactly what happened.

Would you like for the subcommittee's historical records to tell us exactly what happened and why it happened?

Mr. SCHAGRIN. I would like to comment on that.

The real mistake was made in 1960. We have done some research on it and tried to find out why, in the Dillon GATT round, the United States changed duties on sheet and plate products from a

fixed amount to an ad valorem amount *and did not change pipe* and tube duties. We have been unable to find out why.

There is a couple very important issues to keep in mind. One, in 1960, this country was not dramatically concerned about steel imports, steel import rates in 1960 were fairly low, both for basic steel products and pipe and tube products.

Second, in 1960 most of the pipe and tube in this country was made by the integrated steel producers. They not only produced the steel they also produced all the downstream products including pipe and tube.

Wheatland is the exception, they have been in business since 1931, but today most of the pipe and tube is produced by nonintegrated producers who buy steel from the integrated manufacturers.

I can tell you that the independent, nonintegrated pipe and tube industry was certainly not involved in giving any comment to our government in 1960.

Mr. RUSSO. Mr. Feeney, could you explain how the tariff inversion works to the disadvantage of American firms and workers and could you describe a specific set of circumstances that apply to your firm?

I understand there has been a problem with Japan and Thailand as a result of the inversion.

Mr. FEENEY. You are returning to the circumvention that I mentioned in my comments. In Thailand after the VRAs were negotiated, they established pipe and tube plants with the help of Japanese investment.

There are no steelmaking facilities, steel flat-rolled making facilities in Thailand, so the sheet is exported from Japan to Thailand and is made into pipe and tubular products and a great deal of it is exported to the United States.

Thailand in 1984 had zero exports of pipe tube to the United States. In the first 6 months of this year in standard pipe alone, they have brought in 85,000 tons. Their exports have just skyrocketed.

Of course, they are a non-VRA country. In essence, they are bringing in a product that brings with it a lower duty and it therefore helps the Thailand producers to be more competitive with us.

The difference between the 1.9 percent duty on pipe and the approximate 4.9 percent on flat-rolled steel, adds up to, depending upon the type of product, anywhere from $15 to $20 per ton, and that is a significant price discount that our competitors can offer our customers.

Mr. RUSSO. Mr. Kovack, what has happened to the steel labor force over the last decade?

Mr. KOVACK. The last decade. If I might, we have a rule of thumb, Congressman, in 1974 the steelworkers union represented almost 1,400,000 workers. In the period of time that followed until 1981, we lost about 200,000 members.

In this decade we went for a period of time below 600,000 members. We are now back up on an average for the second quarter of this year to around 630,000 members in overall figures.

Mr. RUSSO. I have one last question of the panel, Mr. Chairman. In both the administration's testimony and in our next witnesses testimony they give two ways of solving the problem.

One is by reducing our tariffs on the input products, what the administration suggested, and from Berg Steel they suggested a producers use of the foreign trade zones. Would any witnesses care to comment on whether that is a good or bad policy?

Mr. FAZZONE. Congressman Russo, my name is Patrick Fazzone, counsel to the Speciality Tubing Group. I will address the first option and leave to my cowitnesses the possibility of a foreign trade zone to address this problem.

Lowering the import duties on the input product, stainless steel or carbon steel flat roll products, would compound the existing problem and create a new problem. What it would do would be to first create a tariff inversion on the flat rolled products because it would in all likelihood reduce the tariffs below the tariffs on the products from which the flat rolled themselves are made, which would simply compound the problem and add an additional inversion.

Second, it would place additional pressure on and create additional harm for the flat roll producers in this country without alleviating the problem experienced by pipe and tube manufacturers.

They would continue to experience import competition at undoubtedly the same levels or increased levels as they do today while the flat rolled industry would experience new problems because of the inversion they would be experiencing.

Mr. SCHAGRIN. I will address the other issue, but I would like to comment in terms of USTR going out and negotiating on this issue on the tariff inversion and Ms. Bello, who I have a great deal of respect for, said that if this committee passed legislation requiring the end of the inversion or requiring STR to negotiate an end, it would be like holding a gun to our trading partners heads and you all like that sometimes.

I guess our analogy is a pretty good one because I always think having represented a lot of clients who have now gone out of business, no longer exist because of imports our trading partners already held the gun to our head except they pulled the trigger.

So I think that this committee has to really keep watch over USTR and make sure they don't pursue this policy, which as Mr. Fazzone mentioned is a very poor policy choice of lowering the duties on the flat rolled products.

As to the foreign trade zone, in our area of Chicago thee is a company called U&E Levitt.

After Berg Steel pipe was granted their foreign trade zone in 1981, this company applied for a foreign trade zone and the foreign trade zone board denied the application except for export only.

That company wanted to have a relationship with a Netherlands producer where they would take the sheet from the Netherlands into the United States instead of paying about 5½ percent duty, they would be able to pay only a half of 1 percent duty after the structural tubing product came out of the foreign trade zone.

So the idea of having foreign trade zones in order to get around the inversion certainly would just increase the use of foreign steel in this country which, of course, is a bad policy, wouldn't do anything to increase exports.

We don't mind getting foreign trade zones for export only in order to increase U.S. exports.

Mr. RUSSO. Mr. Chairman, I believe that there is a vote on.

I have no other questions.

Chairman GIBBONS. Would you like to continue this?

Mr. RUSSO. I will come back.

Chairman GIBBONS. We will be right back, gentlemen. We have to go vote. We will be right back.

We just ask you to sit informally.

Mr. Russo says he is finished.

We can let this panel go.

[Brief recess.]

Chairman GIBBONS. Our final witness will be Carl G. Seigler, director of administration and controller, Berg Steel Pipe Corp., accompanied by Lewis Leibowitz, counsel.

Mr. Seigler.

STATEMENT OF CARL G. SEIGLER, DIRECTOR OF ADMINISTRATION AND CONTROLLER, BERG STEEL PIPE CORP., ACCOMPANIED BY LEWIS LEIBOWITZ, COUNSEL

Mr. SEIGLER. Good afternoon.

My name is Carl Seigler. I am director of administration and controller of Berg Steel Pipe. In order to clarify our position, which has previously been clarified by the panel, Berg is opposed to this legislation.

Our company is a manufacturer of large diameter welded steel pipe, for use in oil and gas pipelines and in structural applications, such as offshore platforms. We manufacture this pipe from carbon steel plate purchased from domestic and foreign sources. Berg has about 200 employees. While H.R. 1336 would increase the tariff rates on products which we manufacture, for the reasons stated below Berg is opposed to this legislation.

H.R. 1336 would increase the tariffs on imported pipe and tube to the levels of carbon steel sheet, 4.9 percent ad valorem. This bill was intended to correct the "inverted tariff" relationship between carbon steel pipe and tube products and the flat-rolled steel from which they are made.

While we agree that tariff inversions of this type are not desirable, we cannot support a tariff increase on pipe and tube products as an appropriate solution. Such a bill would increase our own costs of manufacture substantially. It would also violate the most basic principles of the General Agreement on Tariffs and Trade, GATT, and would expose other industries to demands from our trading partners for compensation. Fortunately, more effective and fair methods exist to alleviate the problem.

Berg agrees with the proponents of the two bills before the committee, H.R. 1336 and H.R. 2419, the latter dealing with stainless pipe and tube, that the inverted tariff relationship between flat-rolled steel and pipe and tube was not intended by Congress.

A rational tariff system would generally apply lower tariffs to raw materials than to higher-valued finished products. This would encourage the domestic production of the maximum amount of products. Representative Russo, in introducing this legislation, agreed that the tariff structure in this area is not rational.

The inverted tariff evolved because tariffs on flat-rolled steel were historically based on value, while pipe and tube tariffs were historically based on weight. As inflation pushed up the value of both products, the two rates became steadily more disparate.

By the late 1970s, the 7.5 percent ad valorem rate on steel plate yielded duty of $22.50 per ton at a value of $300 per ton. The corresponding duty rate on pipe was $0.006 per pound, or $12 per ton, regardless of value.

In the multilateral tariff negotiations under GATT in the 1970s, the Tokyo Round, it was agreed that numerous non-value-based duties would be translated into equivalent ad valorem rates. Thus, in 1982, the duty rate on large diameter welded pipe became 1.9 percent ad valorem, where it remains today. Also by agreement, there has been a phased reduction in the duty rate on carbon steel plate, which is now 6 percent.

While the tariff inversion was unintentional, it is now subject to agreement under the GATT. Therefore, simply raising the tariff on steel pipe is not a constructive solution to the problem. This approach would violate one of the fundamental tenets of the GATT, that of tariff reduction. These tariffs are "bound" by our agreement under the GATT. Our trading partners could, and undoubtedly would, claim the right to equivalent compensation or to retaliate.

Indeed, when a similar bill to H.R. 1336 was introduced in the last Congress, the Government of Canada expressed the intention of that country to invoke its rights under the GATT to "restore the balance of mutually advantageous concessions." It is likely that other trading partners would do likewise. As a result, other segments of the American economy would have to pay for these concessions.

The cost to these other sectors would be high. In 1987, the value of trade in the tariff categories affected by the two bills before the committee totaled $856 million. Through June of 1988, the total trade in these products was $541 million, meaning that trade will substantially exceed $1 billion in 1988.

The goals of these bills can be achieved without such great costs. The tariff inversion could be remedied by lowering the tariffs on flat-rolled steel. Domestic products of flat-rolled steel have recently proven unable to meet domestic demand for their products, leading to "short supply" relief under the President's steel program for users of steel plate and sheet. Therefore, domestic steel plate and sheet producers would not be seriously injured by reduction in the tariff protection currently provided.

In addition, current law already addresses the "inverted tariff" problem by authorizing the establishment of foreign trade zones. These areas are considered outside the Customs territory of the United States. Berg operates its plant in Foreign Trade Zone 65 in Panama City. It brings steel plate into the zone from both domestic and foreign sources.

If the plate is imported, it is manufactured, and then assessed duty at the lower rate on pipe if entered into the U.S. customs territory. It should be noted that, before Berg was given the authority to operate in the foreign trade zone, its operations were examined in great detail by the Foreign Trade Zones Board. And, lest anyone

think that this status has proved to be an incentive to import, Berg has used 80 percent domestic plate since the zone was established in 1982.

Solving the inverted tariff problem through the use of foreign trade zones does not require across-the-board tariff increases of reductions. Compensation of our trading partners is avoided, as is the withdrawal of tariff protection where it is desirable.

H.R. 1336 would significantly increase Berg's manufacturing costs, adding 3 percent to the cost of production of pipe using imported plate. Such a cost increase would harm Berg's competitiveness and could jeopardize the jobs of its 200 employees.

As a final point, we note that H.R. 1336 would not eliminate the tariff inversion between plate and pipe. Carbon steel plate is dutiable at 6 percent. Thus, the proposed increase in the tariff on large diameter pipe and tube to 4.9 percent would not eliminate the inverted tariff.

For the reasons stated above, Congress should be very cautious about simplistic increases in the tariffs bound under GATT. This is a 1930s solution to a 1980s problem. We support tariff reductions on flat-rolled steel and the judicious use of foreign trade zones rather than tariff increases to solve these unintended inversions.

Thank you for the opportunity to testify on this important issue.

[The statement of Mr. Seigler follows:]

Before the House of Representatives
Committee on Ways and Means

Testimony of Carl G. Seigler
Director of Administration and Controller
Berg Steel Pipe Corp.
Panama City, Florida
September 22, 1988

Good afternoon. My name is Carl Seigler, and I am Director of Administration and Controller of Berg Steel Pipe Corp., of Panama City, Florida. With me today is Lewis Leibowitz, our Washington counsel. We appreciate the opportunity to testify today.

Berg is a manufacturer of large diameter welded steel pipe, for use in oil and gas pipelines and in structural applications, such as offshore platforms. We manufacture this pipe from carbon steel plate purchased from domestic and foreign sources. Berg has about 200 employees. While H.R. 1336 would increase the tariff rates on products which we manufacture, for the reasons stated below, Berg is opposed to this legislation.

H.R. 1336 would increase the tariffs on imported pipe and tube to the levels of carbon steel sheet (4.9 percent ad valorem). This bill was intended to correct the "inverted tariff" relationship between carbon steel pipe and tube products and the flat-rolled steel from which they are made. While we agree that tariff inversions of this type are not desirable, we cannot support a tariff increase on pipe and tube products as an appropriate solution. Such a bill would increase our own costs of manufacture substantially. It would also violate the most basic principles of the General Agreement on Tariffs and Trade (GATT), and would expose other industries to demands from our trading partners for compensation. Fortunately, more effective and fair methods exist to alleviate this problem.

Berg agrees with the proponents of the two bills before the Committee (H.R. 1336 and H.R. 2419, the latter dealing with stainless pipe and tube) that the inverted tariff relationship between flat-rolled steel and pipe and tube was not intended by Congress. A rational tariff system would generally apply lower tariffs to raw materials than to higher-valued finished products. This would encourage the domestic production of the maximum amount of products. Representative Russo, in introducing this legislation, agreed that the tariff structure in this area is not rational.

The inverted tariff evolved because tariffs on flat-rolled steel were historically based on value, while pipe and tube tariffs were historically based on weight. As inflation pushed up the value of both products, the two rates became steadily more disparate. By the late 1970s, the 7.5 percent ad valorem rate on steel plate yielded duty of $22.50 per ton at a value of $300.00 per ton. The corresponding duty rate on pipe was $.006 per pound, or $12.00 per ton, regardless of value.

In the multilateral tariff negotiations under GATT in the 1970s (the Tokyo Round), it was agreed that numerous non-value based duties would be translated into equivalent ad valorem rates. Thus, in 1982, the duty rate on large diameter welded pipe became 1.9 percent ad valorem, where it remains today. Also by agreement, there has been a phased reduction in the duty rate on carbon steel plate, which is now 6 percent.

While the tariff inversion was unintentional, it is now subject to agreement under the GATT. Therefore, simply raising the tariff on steel pipe is not a constructive solution to the problem. This approach would violate one of the fundamental tenets of the GATT, that of tariff reduction. These tariffs are "bound" by our agreement under the GATT. Our trading partners could, and undoubtedly would, claim the right to equivalent compensation or to retaliate.

Indeed, when a similar bill to H.R. 1336 was introduced in the last Congress, the Government of Canada expressed the intention of that country to invoke its rights under the GATT to "restore the balance of mutually advantageous concessions." It is likely that other trading partners would do likewise. As a result, other segments of the American economy would have to pay for these concessions.

The cost to these other sectors would be high. In 1987, the value of trade in the tariff categories affected by the two bills before the Committee totaled $856 million. Through June of 1988, the total trade in these products was $541 million, meaning that trade will substantially exceed $1 billion in 1988.

The goals of these bills can be achieved without such great costs. The tariff inversion could be remedied by lowering the tariffs on flat-rolled steel. Domestic producers of flat-rolled steel have recently proven unable to meet domestic demand for their products, leading to "short supply" relief under the President's steel program for users of steel plate and sheet. Therefore, domestic steel plate and sheet producers would not be seriously injured by reduction in the tariff protection currently provided.

In addition, current law already addresses the "inverted tariff" problem by authorizing the establishment of foreign-trade zones. These areas are considered outside the Customs territory of the United States. Berg operates its plant in Foreign Trade Zone 65 in Panama City. It brings steel plate into the zone from both domestic and foreign sources. If the plate is imported, it is manufactured, and then assessed duty at the lower rate on pipe if entered into the United States Customs territory. It should be noted that, before Berg was given the authority to operate in the foreign-trade zone, its operations were examined in great detail by the Foreign-Trade Zones Board. And, lest anyone think that this status has proved to be an incentive to import, Berg has used 80 percent domestic plate since the zone was established in 1982.

Solving the inverted tariff problem through the use of foreign-trade zones does not require across-the-board tariff increases or reductions. Compensation of our trading partners is avoided, as is the withdrawal of tariff protection where it is desirable.

H.R. 1336 would significantly increase Berg's manufacturing costs, adding 3 percent to the cost of production of pipe using imported plate. Such a cost increase would harm Berg's competitiveness and could jeopardize the jobs of its 200 employees.

As a final point, we note that H.R. 1336 would not eliminate the tariff inversion between plate and pipe. Carbon steel plate is dutiable at 6 percent. Thus, the proposed increase in the tariff on large diameter pipe and tube to 4.9 percent would not eliminate the inverted tariff.

For the reasons stated above, Congress should be very cautious about simplistic increases in the tariffs bound under GATT. This is a 1930s solution to a 1980s problem. We support tariff reductions on flat-rolled steel and the judicious use of foreign-trade zones rather than tariff increases to solve these unintended inversions.

Thank you for the opportunity to testify on this important issue.

Chairman GIBBONS. Thank you.

Mr. Russo.

Mr. RUSSO. Mr. Seigler, are there any pipe and tube companies besides Berg with a foreign trade zone that allows them to escape tariff inversion?

Mr. SEIGLER. Not that I am aware of.

Mr. RUSSO. I understand Leavitt asked for one and was granted one for export purposes only.

Mr. SEIGLER. I am aware of it. I would like for our attorney to address this question.

Mr. LEIBOWITZ. My name is Lewis Leibowitz, and I am Berg's Washington counsel. I happen to be an officer of the National Association of Foreign Trade Zones, so I am somewhat familiar with that subject as well.

I know of no other pipe and tube producer that takes advantage as Berg does of the inverted tariff situation. There are at least two others that have been granted foreign trade zone status, U.N.R. Leavitt being one of them. The restriction was, I think, the result of the facts and circumstances of that case.

The application was submitted before the Berg application was decided back in 1980. It was approved after the Berg application was decided. So that they kind of overlapped each other. The reasons for the export-only restrictions are within the knowledge of the Foreign Trade Zones Board, the staff of which is housed in the Department of Commerce.

Frankly, I disagreed with the decision then, and I still think it is a wrong decision. It is hard for me to rationalize why they granted the application only for export. They clearly did that in the belief that there would either be damage to domestic produces of flat-rolled steel in that particular case, which they did not see in the Berg case, or that there would be some other dislocation for U.N.R. Leavitt's competitors who are in a different segment of the market from Berg Steel.

But that is only speculation on my part.

Mr. RUSSO. Do you think that domestic sheet and plate producers would file objections with the Foreign Trade Zones Board if all the pipe and tube producers filed for foreign trade status?

Mr. LEIBOWITZ. Yes.

Mr. RUSSO. Mr. Seigler, has Berg used its foreign trade zone to increase its exports or has most of the plate which it has imported been used for the production of line pipe in the U.S. market?

Mr. SEIGLER. Most has been used in this country. We have been restricted from exporting pipe because of the voluntary restraint agreements which prevent us from using material from other countries, manufacturing it into pipe and re-exporting it without counting it against their quota, so it makes it virtually impossible to export it.

Mr. RUSSO. The use of the foreign trade zone was to use the products in U.S. markets?

Mr. SEIGLER. Yes, sir. That is since the beginning of the quota system, yes, that is correct.

Mr. RUSSO. Since Berg primarily concentrates its production on the U.S. market, would Berg support this legislation if we break

out a separate category for large diameter line pipe and increase it to 6 percent of the raw materials?

Mr. SEIGLER. I think that we would not be adverse to supporting something like this if line pipe were broken out. We feel that we do not compete with most of the other manufacturers that are for this legislation.

Mr. LEIBOWITZ. May I clarify the question? This would be breaking it out.

Mr. RUSSO. Set up a separate category for large diameter line pipe?

Mr. LEIBOWITZ. And instead of increasing the tariff from 1.9 to 4.9 percent, increase the tariff from 1.9 to 6?

Mr. RUSSO. Yes.

Mr. SEIGLER. The answer is no to the last part. What I was talking about, trying to clarify, was that we would not be adverse to breaking out line pipe and leaving it outside of this legislation. But yes, we would be adverse to raising the value of the duty from 1.9 to 6 percent.

Mr. RUSSO. Mr. Chairman, I have no further questions.

Chairman GIBBONS. Thank you very much.

Before we close, let me bring to the attention of the staff and the Administration that we want those figures quickly on compensation, and please make that the highest priority.

Mr. RUSSO. Mr. Chairman, let me thank you for giving us the opportunity to present the case on this legislation. I think we have found that everybody agrees that the tariff inversion is unfair. The most difficult thing in dealing with this issue is that everyone agrees it is unfair, but the people who are in a position to correct it don't want to move fast enough to correct the problem.

It is very difficult to deal with issues like those that involve the loss of jobs and market share. We know it was inadvertent. This ought to be the easiest case to solve, because the effect was unintended.

Mr. Chairman, I hope if we cannot move on legislation this year that next year, when we deal with steel matters, that this matter is broken out and dealt with swiftly, so that people who are injured by it can see the government moving properly.

Chairman GIBBONS. I concur.

Thank you, gentlemen. The hearing is recessed.

[Whereupon, at 3:45 p.m., the hearing was adjourned.]

[Submissions for the record follow:]

DELEGATION OF THE COMMISSION OF THE EUROPEAN COMMUNITIES

The Head of the Delegation

September 20, 1988
RCW/jg

The Honorable S. Gibbons
Chairman
Trade Subcommittee of the
House Ways and Means Committee
Rayburn House Office Building Room 2204
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

It has come to the attention of the Commission that the Trade Subcommittee of the House Ways and Means Committee will shortly examine HR 1336 and HR 2419, two Bills which correct the tariff rate inversion on certain iron and steel pipe and tube products. The Commission would comment on these Bills as follows.

Firstly, we would point out that since the duties are bound under the GATT, the increases envisaged will require notification by the U.S. authorities to GATT and negotiation, as appropriate, under Article XXVIII with the U.S.' trading partners on the question of compensation. The Commission understands that the amount of trade that would be directly or indirectly affected by the proposed tariff changes is substantial; compensation, therefore, would be significant.

Secondly, as you know, the E.C. has accepted quantitative restrictions on its exports to the U.S. of the steel products concerned. While the E.C.-U.S. arrangements concluded in 1985 make no specific reference to rates of duty, the proposed tariff increase would add a further restraint on E.C. exports, and would, therefore, be contrary to the spirit of the E.C.-U.S. Steel Arrangement.

We hope these comments will be taken into account as the Trade Subcommittee considers these tariff rate inversion Bills.

Yours sincerely,

Roy Denman
Head of Delegation

2100 M Street NW Suite 707 Washington DC 20037 / telephone (202) 862-9500 / telex 89-539 EURCOM

Arent, Fox, Kintner, Plotkin & Kahn

Washington Square 1050 Connecticut Avenue, N.W.
Washington, D.C. 20036-5339

Lewis E. Leibowitz
(202) 857-6231

September 23, 1988

Honorable Sam M. Gibbons
Chairman, Subcommittee on Trade
House Committee on Ways and Means
Room 1102, Longworth House Office Building
Washington, D.C. 20515

Re: H.R. 1336 and H.R. 2419

Dear Chairman Gibbons:

As counsel for Hoesch America, Inc. and Hoesch Tubular Products Company, of Atlanta, Georgia and Baytown, Texas, respectively, I would like to submit for the record comments by those two companies on H.R. 1336 and H.R. 2419, which would increase tariffs on steel pipe and tube products. The attached letters were submitted during a written comment period in 1987 on H.R. 1336, and in 1986 on a similar bill (H.R. 4565) introduced in the 99th Congress.

Hoesch America, Inc. and Hoesch Tubular Products Company can only obtain their unfinished plain end oil country tubular goods for finishing from their affiliate in Germany. H.R. 1336 would increase the cost of raw materials by 4.4 percent. In addition, Hoesch does not have the alternative of importing flat-rolled sheet, because it lacks the facilities to make unfinished pipe in the United States. The employees at Hoesch Tubular Products Company engaged in finishing these tubular products would thus be placed in jeopardy without any compensating advantages.

Baytown is a depressed community now, with the impending sale of the giant USX plate mill to the Government of Iraq, with the permanent loss of over 1,000 jobs. A further blow through this bill is hardly warranted.

Hoesch America, Inc. and Hoesch Tubular Products Company appreciate the opportunity to comment on H.R. 1336.

Very truly yours,

Lewis E. Leibowitz
Counsel for
Hoesch America, Inc. and
Hoesch Tubular Products
Company

Attachments

Telephone (202) 857-6000 Cable ARFOX Telex WU 892672 ITT 440266 Telecopier (202) 857-6395

[See Written Comments on Certain Tariff and Trade Bills, WMCP 100-26, pages 19-20, and WMCP 99-20, pages 138-139, for attachments.]

National Association of Foreign-Trade Zones

INTERNATIONAL SQUARE SUITE 400 1825 EYE STREET, N.W. WASHINGTON, D.C. 20006
TELEPHONE (202) 429-2020 FAX (202) 659-6848 TELEX 440557

September 22, 1988

Honorable Sam M. Gibbons
Chairman, Subcommittee on Trade
House Committee on Ways and Means
Room 1102, Longworth House Office Building
Washington, D.C. 20515

Re: H.R. 1336 and H.R. 2419

Dear Mr. Chairman:

The National Association of Foreign-Trade Zones is the industry association representing the foreign-trade zones community. We have nearly 300 members who are foreign-trade zone grantees, operators and users. We feel it necessary to comment on the above-referenced bills because they have generated debate about the proper purposes and intent of the foreign-trade zones program. We believe that the Committee on Pipe and Tube Imports has misstated the proper role of foreign-trade zones, and we would like to set the record straight.

The statement by Roger B. Shargrin, Executive Director and General Counsel of the committee on Pipe and Tube Imports, filed in the Ways and Means Committee in April of 1987, states: "Congress created FTZs for the express purpose of increasing and encouraging exports -- not to evade tariff inversions." This is simply not the case. A quick reading of the Foreign Trade Zones Act indicates that it clearly authorizes the manufacture of products in foreign-trade zones and their subsequent entry into the United States Customs territory. If Congress had intended foreign-trade zones to be solely for exportation, they would certainly have written a different statute.

The fact is the foreign-trade zones are often and quite properly used to correct unintended tariff inversions. One such area is the tariff inversion between many automobile parts and finished automobiles. The avenue afforded by foreign-trade zones to correct the unintended tariff inversion has assisted the significant new investment in automobile manufacturing in the United States, displacing imports of finished vehicles. Many other examples could be cited.

In the steel pipe and tube area, foreign-trade zones have proven to be an effective method of alleviating the unintended tariff inversion without injuring domestic industry. Berg Steel Pipe Corp. is a graphic example of this beneficial use of foreign-trade zones. It may or may not be that the Foreign-Trade Zones Board would find that every steel pipe and tube producer should be granted foreign-trade zone status. However, the Foreign-Trade Zones Board carefully and critically examines each application to determine whether a foreign-trade zone for a particular company would tend to create imports that would not otherwise exist or to damage competing and/or supplying industries. In its last such examination, it determined that Berg Steel Pipe Corp. should continue to manufacture large diameter pipe in a foreign-trade zone.

For the above reasons, we believe that the foreign-trade zones program is a viable alternative to the across-the-board tariff increases proposed by H.R. 1336 and H.R. 2419. The availability of this remedy, which would not require expensive and disruptive tariff concessions or lead to retaliation and increased trade tension, should be seriously considered.

The NAFTZ appreciates the opportunity to comment on this legislation.

Very truly yours,

Dennis J. Curran
President

cay/5693

○